# FINANCIAL TIMES

**EU anger**
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World Business Newspaper WEDNESDAY JUNE 26 1996

## Beijing and Bonn attempt to end dispute over Tibet

Beijing and Bonn tried to stop their dispute over Chinese policy in Tibet, which has led to the cancellation of several German ministerial visits, damaging their long-term relations. A Chinese foreign ministry spokesman said that, as long as the German government took "concrete and effective" measures to make amends, relations would not be allowed to deteriorate further. He did not specify what the measures might involve. Page 14; Editorial Comment, Page 13

**No commitment on West Bank troops:** Benjamin Netanyahu, Israel's prime minister, has refused to give Warren Christopher, US secretary of state, a commitment that his government would honour Israel's promise to pull troops out of the Israeli-occupied West Bank town of Hebron, a flashpoint of Arab-Jewish violence. Page 4; Editorial Comment, Page 13

**Jobs cut at French naval shipyard:** The French government announced a big reorganisation of its DCN navy shipyards, putting them under pressure to become more efficient and cutting the 24,000 workforce by a quarter. Page 14; Jobless rate near record, Page 3

**Growth set to fall in eastern Germany:** The east German economy will grow no more than 3 per cent this year, nearly half the rate forecast a year ago, according to reports by the institutes for economic research in Halle and Berlin. Total unemployment will remain high at 20 per cent of the labour force. Page 2

**Italy details media and telecoms plans:** Media and telecommunications companies will be free to compete with one another, supervised by a single regulatory authority, under planned legislation in Italy, according to the country's post and telecoms minister. Page 2

**Dole takes initiative on TV speeches:** Republican Bob Dole has agreed to a new proposal for US presidential candidates to deliver short political speeches on free time donated by the TV networks before the November elections. Page 5

**Quelle,** Germany's large mail order company re-established after the second world war to provide cheap, quality clothes to Germans, moved upmarket by signing a contract with Karl Lagerfeld, the luxury designer. Page 15

**IBM to create 1,000 jobs in Ireland:** International Business Machines, the world's largest computer company, is to create 1,000 jobs by building a new customer support centre in Ireland and expanding its call centre in Scotland. Page 8

**Nycomed loses 23% after warning:** Shares in Nycomed, the Norwegian pharmaceuticals group, plunged almost 23 per cent after the company warned that profits this year would be well below market expectations. Page 15; Lex, Page 14; World Stocks, Page 34

**Lada manufacturer lifts production:** Avtovaz, the Russian manufacturer of Lada cars, remains in a weak financial position after recording a net loss of Rbs2,020bn ($398m) last year, but is slowly improving its productivity and expanding its production. Page 16

**Deutsche Telekom may list in Asia:** Deutsche Telekom, the state-owned German group, said it was considering listing its shares on an Asian stock exchange. Page 20

**Axa sets price for NY listing:** Axa, the French insurance group, announced that its shares to be listed on the New York Stock Exchange are to be priced at FFr274 each. Page 16

**Boeing,** the US aircraft manufacturer, said it expected business in Asia to grow strongly in the next 10 years. Page 8

**AOL chief quits after 4 months:** William Razzouk has resigned as president and chief operating officer after four months at America Online, the leading US online service provider. Page 18

**US hurdle for BA-American deal:** US airlines are rallying to prevent the proposed alliance between British Airways and American Airlines from being approved. Page 8

**The World Bank** announced an important reform of its lending to poor countries which will substantially widen the choice of currencies in which they can borrow. Page 14

**Record international borrowing for Fiat:** *Fiat, the Italian automotive and industrial group,* has appointed Citibank International and Deutsche Bank Luxembourg to organise a $1bn multi-currency credit line, its largest ever international credit facility. Page 16

**STOCK MARKET INDICES**

| | | |
|---|---|---|
| *New York lunchtime* | | |
| Dow Jones Ind Av | 5,705.8 | (-12.19) |
| NASDAQ Composite | 1,178.9 | (-4.0) |
| *Europe and Far East* | | |
| CAC40 | 2,118.43 | (+20.8) |
| DAX | 2,572.96 | (+6.53) |
| FT-SE 100 | 3,679.5 | (-31.3) |
| Nikkei | 22,597.17 | (-6.03) |

**US LUNCHTIME RATES**

| | |
|---|---|
| Federal Funds | 5¼% |
| 3-mth Treas Bills: Yld | 5.218% |
| Long Bond | 86⅔ |
| Yield | 7.053% |

**OTHER RATES**

| | | |
|---|---|---|
| UK: 3-mo Interbank | 5¾% | (same) |
| UK: 10 yr Gilt | 96½ | (96⅔) |
| France: 10 yr OAT | 104.74 | (104.58) |
| Germany: 10 yr Bund | 97.73 | (97.52) |
| Japan: 10 yr JGB | 98.0874 | (98.1913) |

**NORTH SEA OIL (Argus)**

| | | |
|---|---|---|
| Brent Dated | $18.37 | (18.38) |

**GOLD**

| | | |
|---|---|---|
| *New York: Comex* | | |
| (Aug) | $385.6 | (386.7) |
| *London:* | | |
| close | $384.9 | (384.3) |

**DOLLAR**

| | | |
|---|---|---|
| *New York: lunchtime* | | |
| £ | 1.54935 | |
| DM | 1.5305 | |
| FFr | 5.189 | |
| SFr | 1.2603 | |
| Y | 109.005 | |
| *London:* | | |
| £ | 1.5409 | (1.5395) |
| DM | 1.5322 | (1.5315) |
| FFr | 5.1916 | (5.1878) |
| SFr | 1.2636 | (1.2635) |
| Y | 109.085 | (109.105) |

**STERLING**

| | | |
|---|---|---|
| DM | 2.3609 | (2.3582) |
| Tokyo close: | Y 109.1 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Albania | LEK 220 | Germany | DM4.00 | Lithuania | Lts 15.00 | Qatar | QR13.00 |
| Austria | Sch37 | Greece | Dr400 | Lux | LFr75 | S.Arabia | SR12 |
| Bahrain | Din1.250 | Hong Kong | HK$20 | Malta | Lm0.65 | Singapore | S$4.30 |
| Belgium | BFr75 | Hungary | Ft230 | Morocco | MDh16 | Slovak Rp | Sk65 |
| Cyprus | C£1.20 | Iceland | IKr230 | Neth | Fl 4.75 | S. Africa | R12.00 |
| Czech Rp | Kc60 | India | Rs75 | Nigeria | Naira90 | Spain | Pta250 |
| Denmark | DKr18 | Israel | Shk7.90 | Norway | NKr20.00 | Sweden | SKr20 |
| Egypt | E£5.00 | Italy | L3200 | Oman | OR1.50 | Switz | SFr3.70 |
| Estonia | EKr 22 | Japan | Y500 | Pakistan | Rs40 | Syria | S£85.00 |
| Finland | FM15.50 | Jordan | JD1.50 | Poland | Zl 5.50 | Tunisia | Din1.750 |
| France | FFr11.60 | Kuwait | Fils650 | Portugal (m'land) | [illegible] | Turkey | L80,000 |
| | | Lebanon | [illegible] | | [illegible] | UAE | Dh12.00 |

# Taiwan police name 126 triads in crime crackdown

By Laura Tyson in Taipei

Taiwan's National Police Administration yesterday publicly identified 126 of the country's top crime organisations, known as triads, in an unprecedented crackdown on organised crime. It also named 5,800 people who it said were gangsters.

The public disclosure of the extent of organised crime in Taiwan comes at an awkward time for the country's first democratically elected president, Mr Lee Teng-hui, who is under increasing pressure to tackle crime and its links with corporate and public life.

The police say triads – known as "black societies" in Chinese – have taken advantage of the island's fledgling democracy to "launder" their reputations by successfully standing for public office. Several known gangsters who had moved into public life were identified in yesterday's United Daily News, a leading mass selling newspaper tipped off by police.

The triads are increasingly moving into legitimate businesses, the paper said, especially public infrastructure and construction, departing from traditional businesses such as gambling and prostitution.

The gang members named include elected representatives at national and local government, some of whom were said to control from behind the scenes large crime organisations. The paper also published a detailed map of Taiwan showing the number of gangsters and the main gangs in each county and city based on information provided by the police administration.

The largest Taiwan-based triad is the Bamboo Union Gang with over 600 identified members, followed by the Four Seas Gang with 500-plus members and the Heavenly Path Alliance numbering 400 or more.

Mr Lee's popularity has sunk following his election in March. Several big corruption scandals have erupted in recent months, implicating senior figures in the ruling party as well as hundreds of policemen.

The popular justice minister, Mr Ma Ying-jeou, widely regarded as having led an effective campaign against corruption and organised crime during his three years in the post, was demoted to minister without portfolio in a cabinet reshuffle earlier this month.

The NPA, part of the interior ministry, has drafted an organised crime prevention bill, aimed at preventing known gangsters from running for public office.

## Sackings strengthen Lebed

# Yeltsin ousts seven more generals in army purge

By Chrystia Freeland in Moscow

Russian President Boris Yeltsin sacked seven hardline generals yesterday in move that threatened to destabilise the country's army a week ahead of a presidential run-off between Mr Yeltsin and Mr Gennady Zyuganov, his Communist rival.

The purge followed the dismissals last week of the nation's four most powerful hardline politicians, and further strengthened Mr Alexander Lebed, the retired general who joined the Kremlin team as security chief after finishing third in the first round of presidential voting.

Four of the officers sacked yesterday had been publicly named last week by Mr Lebed, who demanded their sackings because of their alleged efforts to protest at the dismissal of General Pavel Grachev, the minister of defence, who was one of the victims of last week's government shuffle.

Russian military analysts said they expected the purge of Mr Grachev's supporters to continue beyond the second stage of the presidential elections, assuming Mr Yeltsin wins. This would leave the top jobs free for allies of the new defence minister, who has yet to be named.

They warned the shake-up could create confusion in Russia's security forces at a decisive moment in the nation's development. Over the past 10 days, the defence minister, the chief of the foreign intelligence service – a revamped offspring of the KGB – the head of the presidential guard and other senior military personnel have all been fired.

Yesterday's purge included Gen Victor Barynkin, first deputy head of the general staff, Gen Vladimir Shulikov, deputy commander of land forces, and Gen Valery Lapshov, head of the defence minister's personal staff.

The removal of Grachev loyalists from the ministry appeared to consolidate last week's victory of the reformist faction in the government over Kremlin hardliners, in a struggle which has dominated Russian political life for the past five years.

Another sign of what some reformist observers are hoping will be a decisive shift in Mr Yeltsin's often ambiguous politics came when the president signed a decree ordering the withdrawal of Russian troops from the Chechen republic by September 1.

The pull-out from the deeply unpopular conflict could win votes for Mr Yeltsin on July 3 in the run-off against Mr Gennady Zyuganov, the Communist party candidate. The pull-out had been opposed by hawks in the military, including Gen Grachev, one of the strongest voices behind the decision to invade Chechnya.

But Mr Yeltsin was careful to hedge his bets yesterday, telling

Continued on Page 14
Russian economy shrinks, Page 2


An estimated 25,000 people, protesting against the forthcoming G7 summit, marched [illegible] Lyons, France, yesterday. The demonstrators demanded that the leaders of the major industrial powers, whose three-day meeting begins tomorrow, give priority to jobs rather than monetary policy. The banner reads: 'G7: Take care, these men are dangerous', and displays caricatures of the G7 leaders Picture: Reuter

# Volvo to sell $2bn stake in drug group

## Offer will be for two-thirds of 14% holding in Pharmacia & Upjohn

By Hugh Carnegy in Stockholm

Volvo, the car and truck maker, is to launch one of Sweden's biggest share offerings next month when it sells at least two-thirds of its 14 per cent holding in the Swedish-US pharmaceutical group Pharmacia & Upjohn for almost $2bn.

The global offer, to be priced in late July, will be for 46m Pharmacia & Upjohn shares, with an option to sell a further 6.9m if the offer is over-subscribed. Pharmacia & Upjohn shares dipped SKr4.50 on the news yesterday to close at SKr285, valuing the tranche Volvo will sell at SKr13.1bn ($1.96bn).

Volvo was committed to selling all its Pharmacia & Upjohn holding by the end of this year as part of a SKr40bn non-core asset disposal programme. But it held back from offering the entire holding in one tranche apparently because of worries about placing such a large stake. It has pledged to hold on to its residual stake for six months after the July sale.

The offering will be worth less than the SKr18bn flotation in March of a 55 per cent stake in Scania, Volvo's rival Swedish truckmaker.

But it exceeds the SKr9.4m raised by the Swedish government in 1994 when it sold a near 50 per cent stake in Pharmacia – the company which last year merged with Upjohn to form the present group.

Goldman Sachs and Merrill Lynch have been appointed the joint global co-ordinators for the sale.

Analysts said the timing was reasonably favourable. Although pharmaceutical stocks are weaker than last year, Pharmacia & Upjohn can argue that its merger – which created one of the world's top 10 drugs groups – means the company is well placed at a time when the industry is undergoing restructuring.

Profits in the first quarter were down from $238m to $50m following initial restructuring charges from the merger. Sales rose 3.5 per cent to $1.74bn – slower than other large drug companies.

Pharmacia & Upjohn said it is on track to achieve projected savings from streamlining its combined operations of $500m a

Continued on Page 14
Volvo executive to head NedCar, Page 16

# Brussels sees EU expansion eastward without budget rise

By Lionel Barber in Brussels

The European Commission calculates that the European Union can absorb East European entrants without increasing its budget in real terms in the next 10 years.

The Brussels assumption reflects increasing pressure from net contributors such as Germany, the Netherlands and the UK to control EU spending. But the implication is that net beneficiaries will see some reductions in Brussels aid as a result of tighter rules on regional support.

It also points to a longer-than-expected timetable for membership for the former Communist countries of central and eastern Europe.

A senior Commission official said yesterday the earliest membership for an advanced guard of central European countries was likely to be around 2002-2003. Malta and Cyprus could join sooner, depending on resolution of the Greek-Turkish dispute over Cyprus.

As part of an internal review, the Commission has produced new calculations which assume the costs of expansion to eastern Europe are high, but manageable. Central to this assumption is the view that the EU budget is unlikely to rise beyond 1.27 per cent of EU gross domestic product between 1999-2006.

Commission calculations show around 0.46 per cent of EU GDP would be available for regional aid and "cohesion" funds, which funnel money to Greece, Ireland, Portugal and Spain.

These figures would create a regional aid pot of Ecu260bn ($321bn) disbursing an average of Ecu37bn a year – a 30 per cent increase on the current 1994-99 regional aid budget of Ecu170bn, disbursing Ecu28bn a year.

Mrs Monika Wulf-Mathies, EU regional affairs commissioner, told a committee of the Bundestag in Bonn last week that it was possible to put forward an "attractive" financial package for central and eastern European countries, including extra money ahead of accession.

Mrs Wulf-Mathies said it might be possible to increase funding under the Phare aid programme seven-fold from Ecu1bn a year, raising total funds to Ecu50bn between 2000 and 2006.

The commissioner also sought to reassure net recipients, notably Spain, that there would be enough money to satisfy their needs. But she served notice that some regions in Spain, Portugal, Ireland and Italy – as well as France, Belgium and the Netherlands – would no longer qualify for Brussels aid.

Under so-called Objective One funding, regions can qualify for EU funds if their per capita GDP is below 75 per cent of the EU average. The Commission wants to tighten the aid map, partly to raise money for eastern Europe and partly to wean off net recipients who have benefited from regional aid. Ireland is the most obvious target.

Regional aid accounts for one quarter of the total EU budget and is intended to help poorer countries cope with the single market. It is the second biggest item behind the Common Agricultural Policy.

Labour outlines vision, Page 9

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NEWS: EUROPE

Gesamtmetall calls for more flexible arrangements within the regional wage agreement structure

# German employers seek local pay deals

By Wolfgang Münchau in Bonn

German engineering employers yesterday called for a radical overhaul of their relationship with trade unions to allow individual companies to reach plant-level wage deals.

Gesamtmetall, the German engineering employers federation, yesterday put up a formal proposal to slim down the current regional wage agreements, which govern the contractual details of most work contracts in the metal and electrical industries, the largest sector in the German economy.

The proposal comes in response to criticisms especially from among smaller and medium-sized companies, which had attacked the present arrangements as too inflexible.

Mr Werner Stumpfe, the president of Gesamtmetall, said yesterday that he wanted to retain the regional agreements in principle, while giving companies the right to opt out as long as they can reach a better deal with their own workers.

He claimed that more flexibility was needed for German engineering companies to survive against foreign competition and to give smaller and medium-sized companies the ability to deal with sudden demand swings.

Mr Stumpfe said a minority of German electrical and engineering companies "thinks the system is out-of-date and wants to conduct wage talks within the companies themselves. But the majority wants to retain the current regional wage agreements because they are aware of its advantages. At the same time, they are asking for fundamental reforms."

As part of those reforms Gesamtmetall wants to restrict regional wage agreements to cover a few essential items, such as wage increases, the setting of wage bands, holiday and sick pay arrangements, while allowing companies to negotiate their own individual working time arrangements.

Companies should furthermore be able to change other aspects of the regional wage contract, including pay levels, if the works council agrees.

IG Metall, the metal industry trade union, said it would strongly oppose any opt-out clauses. Mr Jörg Barczynski, spokesman for IG Metall, particularly dismissed the argument that Germany was no longer competitive.

He said that the strength of the export industry was proof to the contrary, and added that the employers had stirred up a debate about competitiveness only as a pretext to seek permanently higher profits.

Gesamtmetall argues that opt-outs would end a prevailing legal uncertainty, since many companies have already reached plant-level deals, even though some are technically in breach of contract.

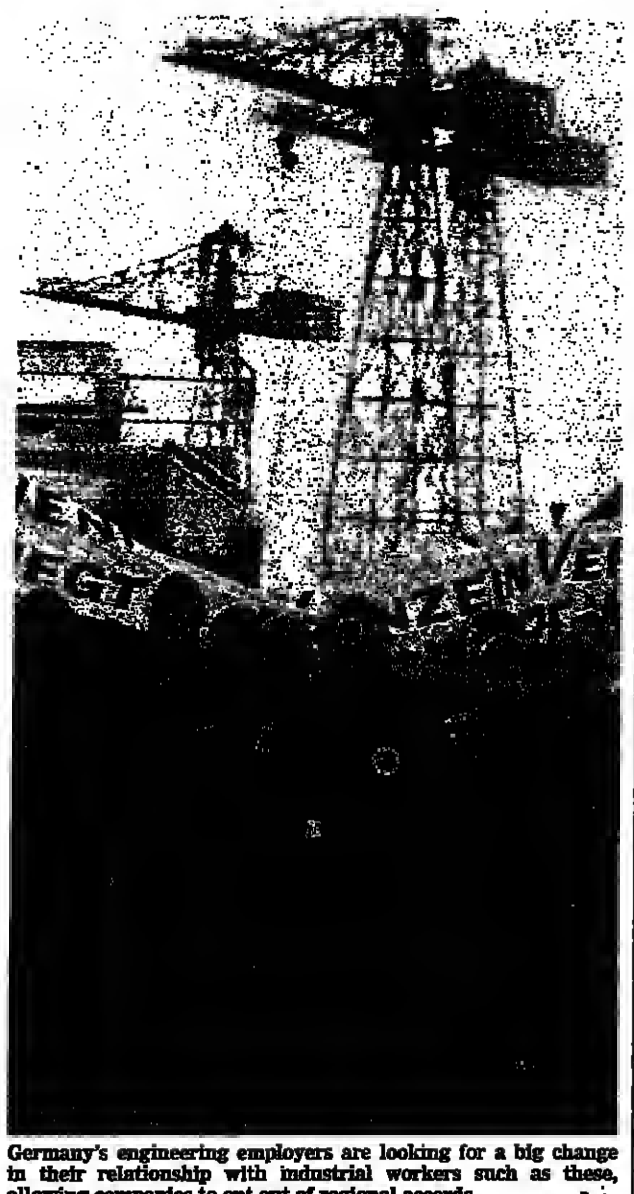
Mr Stumpfe also called for no-strike agreements.

He did not make a specific proposal, but listed "pendulum arbitration" as a possible dispute settlement system, under which an independent arbitrator can adopt either the union's or the employers' final proposals, but no compromise.

The concept behind pendulum arbitration is to encourage both sides to make moderate offers to avoid the risk of total defeat.

IG Metall said yesterday that it was determined to retain the right to strike.

Mr Stumpfe also announced a reorganisation of Gesamtmetall's regional affiliates, reducing their number from 17 to seven.



Germany's engineering employers are looking for a big change in their relationship with industrial workers such as these, allowing companies to opt out of regional accords Reuter

# Italy details media and telecoms plans

By Andrew Hill in Milan

Media and telecommunications companies will be free to compete with one another in Italy under the supervision of a single regulatory authority, the country's new post and telecoms minister said yesterday.

Mr Antonio Maccanico told a parliamentary committee the government would shortly present legislation to liberalise telecoms services, to reform the Rai state television network, to change antitrust rules for the sector and to ease the privatisation of Stet, the state-controlled telecoms holding company.

The new legislation is likely to be presented by the middle of July, when trading in the shares of Mediaset, the media company controlled by Mr Silvio Berlusconi, is due to begin.

Mediaset's flotation prospectus, which is being presented to US investors this week, is based on the assumption that the company will not have to divest any of its three commercial television channels as a result of a 1994 court ruling on media ownership.

The minister said antitrust rules would take into account the 1994 ruling, which could restrict the share of the market held by individual media companies, and the results of last year's referendums, in which Italians voted against divestment for Mediaset. Mr Maccanico added that all developments would take into account the rapid development of technology.

Mr Maccanico, a master of political compromise, has the task of increasing competition in two sectors still dominated by a few companies – the Rai and Mediaset in television, and Stet and its subsidiaries in telecoms.

In what was his first detailed policy statement, Mr Maccanico said the new legislation would open telecoms infrastructure and services to full competition from January 1, 1997, except voice telephony which would remain a monopoly until the beginning of 1998. He said the government was already preparing the contest for a third mobile phone licence.

The government wanted to establish quickly a single telecoms and media regulator, also responsible for the printed press, consisting of two committees, one supervising infrastructure and the other services and content. Mr Maccanico said establishing a regulatory authority was a prerequisite for the rapid sale of the government's majority stake in Stet.

He added that the government wished to restructure the Rai in order to introduce a "federal" element into its broadcasting, which could involve the third channel being transformed into a regional network.

# Lira strengthens as interest rates decline

By Robert Graham in Rome

For the first time in two years the Italian lira has touched the psychologically important parity of L1,000 to the D-Mark. Its improvement was matched by a fall in interest rates on certain short-term treasury bills to below 7 per cent for the first time in three years.

"This confirms the confidence the markets have shown in this government since it has taken office," Mr Carlo Azeglio Ciampi, treasury minister and former central bank governor, said yesterday.

Mr Ciampi was speaking at a press conference to explain last week's successful convertible bond issue for the final tranche of the treasury's stake to Ina, the insurance group. This raised L3,250bn ($2.1bn) for 34 per cent of Ina which was at short notice and was heavily oversubscribed by domestic and international investors.

Compared to a year ago, the lira has recovered 15 per cent against the D-Mark. The recovery has been in evidence since last autumn; but the trend has been consolidated in the wake of the centre-left Olive Tree alliance's victory in the April elections.

Yesterday's parity was prompted by prospects of a cut in the discount rate by the Bank of Italy and the imminent release of the Prodi government's three year macro-economic plan in which the 1997 budget will be formulated.

Officials yesterday indicated the budget would be seeking to find L30,000bn to L35,000bn next year to reduce the deficit to around 4 per cent of GDP. This would be similar to the size of this year's original budget. Last week the new government was obliged to introduce a L16,000bn corrective package to hold the deficit down to its targeted 5.9 per cent of GDP.

The three-year plan is expected to set next year's inflation target at 2.5 per cent and not 3 per cent sought by the trade unions. On the basis of a slight pick-up on the 1996 first-half sluggish growth, the economy is projected to grow 2 per cent next year against a maximum of 1.5 per cent this year.

Despite the government's confidence that it can put Italy's public accounts in order and push the country towards complying with Maastricht convergence criteria, the Bank of Italy has yet to reduce its discount rate. Economists said yesterday that until this signal of approval comes from the central bank, the new government team will be unable to relax.

Mr Ciampi at yesterday's Ina press conference denied press reports he was failing to get his way in imposing his rigorous policies on his partners in the coalition government. He also underlined the Ina operation showed the faith of the markets in the new government's policies. The treasury, he added, would shortly be ready to sell off the last tranche of nearly 7 per cent of IMI, the Italian banking group.

# Growth set to fall in eastern Germany

By Judy Dempsey in Berlin

The east German economy will grow no more than 3 per cent this year, nearly half the rate forecast a year ago, according to reports by the institutes for economic research in Halle (IWH) and Berlin (DIW). Total unemployment will remain stubbornly high at 20 per cent of the labour force.

The IWH warns, however, that pumping more investment from west Germany to the east – currently a net DM140.5bn ($92bn) a year – will not give its economy the impetus to establish sustained growth. Instead, it believes it is time to identify which sectors are stabilising and becoming competitive.

In the past, the two institutes have identified the construction sector as one of the primary engines of growth. But as many of the region's large public and private projects are nearing completion, and as there is a fall in construction investments throughout the entire country, they regard the building boom in east Germany as over.

The DIW reckons real investments in construction, which peaked at a rise of 18 per cent in 1993, will fall by 4.5 per cent next year, compared to 2 per cent in west Germany. The IWH says the east's building industry is too large part of the region's economy. Last year, it amounted to DM4,176 per person in the east compared to DM2,476 in the west.

Over the same period, and in sharp contrast, the IWH notes that the value per capita of east Germany's manufacturing sector was only DM3,384 compared to west Germany's DM11,907. According to the IWH, the region's Achilles heel is its weak industrial base: it is not producing enough goods as confirmed by its tiny contribution to exports, which last year accounted for only 3 per cent of Germany's total.

However, Mr Joachim Ragnitz, one of the authors of the IWH report, said yesterday that the region's chemical and rail manufacturing sectors would revive. He added, however, that the other weak aspect of the economy, persistent low productivity levels, would persist for some time.

East German wages on average are 75 per cent of levels in the west, Mr Ragnitz said, but productivity was 55 per cent of west German levels, making overall costs 35 per cent above west Germany's. Both the IWH and DIW argue that pay restraint and more flexibility are crucial if the region is to achieve sustained growth.

■ Germany's Ifo economic research institute has reported signs of optimism in west German industry, particularly in intermediate manufacturing. Ifo's latest industry survey reported "clearly better expectations" in manufacturing industry in May.

# Uncertain future for large European aircraft

Budget problems mean that military transporter project, once viewed as vital, may never get off the ground, write **Bernard Gray, David Buchan** and **Michael Lindemann**

A multi-billion dollar programme to develop a European military transport aircraft has been lumbering along for eight years, and some are now beginning to suspect that it will never get airborne.

Ever since British Aerospace fought a public relations war two years ago to get the Royal Air Force to buy the proposed European Future Large Aircraft instead of the US Hercules transporter, defence manufacturers have been insisting thet the programme is vital to the European defence industry.

As well as providing much-needed work for design teams in Airbus, tbe programme would help bind the European defence industry closer together. With European countries needing about 300 such aircraft, and with substantial export prospects, tbe programme could also be a commercial success.

Britain, Germany, France and several other European couotries will need military transporters in the next decade. And all agree that rapid reaction forces will be needed in the next century and aircraft will be required to move them to trouble spots.

But none, not even the three main countries involved, has yet committed any money for the $5bn development phase of the project. Even those tentative offers which have been made have become vaguer as time has gone by.

The specification of the proposed aircraft has also been hard to pin down. The FLA was originally designed to be much larger than the Hercules to accommodate helicopters and tanks. Now the French are arguing that such a large aircraft may be too expensive and want to produce a cheaper one whicb would compete directly with the Hercules.

Even the name of the aircraft is undecided: some are now calling it the Future Transport Aircraft because they are no longer sure it will be large.

As a result, what is supposed to be an important European project is in a sorry state. Britain's position is that it will rejoin the programme if it is managed on a commercial basis by the Airbus consortium. Unfortunately it does not have sufficient monay in its long-term budgets to pay for development and purchase of the 45 aircraft it says it wants.

Nevertheless, after some initial complaints, the other partners have accepted Britain's idea, not least because commercial development seems to be the only way the programme stands any chance of being funded: they now hope that firm commercial orders for aircraft deliveries will allow Airbus to borrow the money from banks.

This approach is being most actively pursued in France. In its spring defence review, France stopped funding for the FLA, in effect threatening to end its involvement in the programme. Under pressure from Germany, it haa since been looking for alternative ways to fund the aircraft.

Aerospatiale has since proposed tbat the government place a firm order for 50 FLA and make a FFr2.7bn ($530m) down-payment on development. Provided orders and guarantees are solid enough, Aerospatiale would fund the rest of France's FFr7bn estimated share of FLA development costs out of its own funds and bank borrowing.

French defence officials say the fact they have not yet accepted Aerospatiale's suggestions is not evidence of second thoughts on their part. One official said "the Aerospatiale proposal is a good basis for discussion", but governments and aircraft companies elsewhere in Europe now needed to discuss the idea.

Mr François Anque, Aerospatiale's finance director, said last week that "the [French] state would need to commit itself irrevocably to buying a fixed number of planes, at a fixed price, at a fixed date, linked to penalties if these commitments were not kept".

With Aerospatiale and many French banks still state-owned, it may just be possible to fudge a set of guarantees which would not bear strict commercial evaluation, but would be enough to get the funding off the government's books.

It is harder to see such an approach working in Germany. Daimler-Benz Aerospace is a private company, and it may be impossible for the government to commit itself to a sufficiently firm number, price and specification for the aircraft to make the deal bankable.

The idea may also be illegal under German law. "Under German procurement laws the defence ministry has to ensure that industry does not have to incur any interest charges," a German defence ministry official points out.

Instead officials say Germany will use some of the DM11.2bn ($7.5bn) which it has already earmarked for development and purchase of 70 FLA. It would make an initial down-payment in 1998 to cover the development costs. Later payments will follow as progress on the FLA passes agreed targets.

Ultimately, the budget problems of the FLA stem from the need of France and Germany to cut government spending to meet the Maastricht criteria for a single currency. The current manoeuvring is designed to move the bulge in development funding from the critical 1998-2002 period to around 2004-2008 when the governments hope the pressures will be less.

To do that they are being forced into contortions designed to get the programme's liabilities off their budgets. It may eventually be successful, though many in Britain, France and Germany are beginning to suspect the effort may not work. Even if it does, it is an extraordinary way to build an aircraft.

A computer simulation of the FLA. Several European countries will need new military transports in the next few years

THE FINANCIAL TIMES
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EUROPEAN NEWS DIGEST

# Economy in Russia shrinks

Mr Yevgeny Yasin, the Russian economy minister, warned yesterday that the country's economy had continued to contract this year instead of growing, as Russian and western analysts had predicted.

Although Moscow has been meeting tough inflation targets agreed with the International Monetary Fund, Mr Yasin, one of the nation's most senior market reformers, warned that financial stabilisation had not yet delivered the promised economic revival.

Mr Yasin said gross domestic product last month had contracted by 3 per cent compared with May 1995, and that industrial production had fallen by 4 per cent. Furthermore, despite the government's largely successful battle against inflation, capital flight out of Russia had increased over the past few months.

He attributed these unexpectedly gloomy figures to fears of a Communist victory in the presidential election on July 3. "The Communists have not come to power – and I hope they do not – but the fear that they might has had an extremely negative effect on the economy," he said.

Mr Yasin said he hoped "that this will be a temporary dip and the economy will rebound in June and July" after the elections. If President Boris Yeltsin was re-elected, the cabinet's top priority would be to battle cripplingly low rates of tax collection, he said. These had made it almost impossible for the government to provide ordinary services such as schools, utilities and medical care. *Chrystia Freeland, Moscow*

## Norwegian oil strike ends

Oil rig service workers from the Norwegian Oil and Petrochemical Union returned to work yesterday after a 25-day walkout over pay. The strike of 225 personnel brought drilling operations to a standstill at 16 rigs on the Norwegian continental shelf. A proposed new contract will give an average pay rise of NKr16,000 ($2,450) a year for union members and a special tariff for nightshifts of NKr13 per hour. Union members have still to vote to accept the proposal.

Last week, the National Federation of Oil Service Companies, acting for the employers, proposed to lock out a further 500 oil service workers when talks stalled over working conditions and wages for mudloggers and divers. Union estimates put losses to rig and service companies from the strike at around NKr10m a day. *Reuter, Oslo*

## Paris has dearest hotels

Parisian hotels still have Europe's most expensive room rates, despite terrorist activity, transport strikes and a strong currency, according to a survey* of 317 hotels in the largest European cities. A room cost the equivalent of DM380.31 ($249) a night in Paris, fractionally up on the 1994 figure.

Hotels have been busy across Europe, according to consultants Pannell Kerr Forster. Room occupancies averaged 68.7 per cent; London and Rome recorded rates of more than 80 per cent. The most expensive rooms after Paris were in Geneva, Moscow and London; the cheapest were in Manchester, Barcelona and Istanbul. About 62 per cent of Europe's hotels were occupied by Europeans, 17 per cent by North Americans. Despite less favourable economic forecasts for this year, most hotels are expecting an improvement, says PKF. *Scheherazade Daneshkhu, London*

*Eurocity Survey 1996, Pannell Kerr Forster Associates, New Garden House, 78 Hatton Garden, London EC1N 8JA. £500.

## EU agrees pollution curbs

European Union environment ministers meeting in Luxembourg yesterday adopted common curbs on pollution from diesel-powered cranes, forklifts, and excavators, diplomats said. The new restrictions on emissions of nitrous oxides and hydrocarbons from so-called mobile machinery have been set at the same level as US standards in an attempt to harmonise requirements for manufacturers of such machinery. *Leyla Boulton, London*

## Dutch forecast higher growth

The Netherlands yesterday revised its growth forecast for next year, with the government's central planning bureau saying real gross domestic product was expected to rise 2.75 per cent to 3 per cent, compared with a 1997 projection in April of 2.5 per cent to 2.75 per cent.

It said exports would rise by around 6.5 per cent compared with 5.5 per cent this year. Infrastructure investment would strengthen while household consumption would show a modest upward trend.

It expected that a clear recovery – previously held back by a downturn in the important German market – would be established in the second half of this year. The bureau left its 1996 growth forecast for GDP at 2 per cent.

The cautiously improving outlook is supported by a batch of recent short-term data. Business confidence figures released yesterday showed industry expecting a slight summer revival, while a previously negative consumer confidence index has almost returned to equilibrium, with just 1 per cent more negative responses than positive. *Gordon Cramb, Amsterdam*

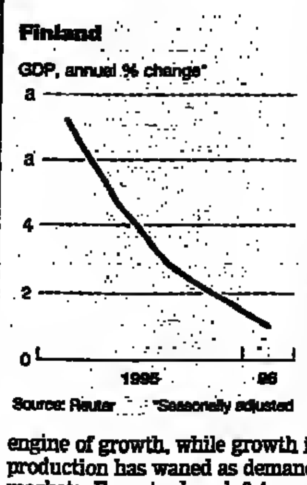
## Çiller and Refah still talking

An aide to the Turkish conservative leader, Mrs Tansu Çiller, said yesterday that her True Path Party (DYP) had yet to reach an agreement to form a coalition with Refah, the Islamist Welfare party, but that talks would continue. "The work will continue between the two groups. We are working on some points," said DYP deputy leader Mr Necmettin Cevheri after the party held a third round of talks with Refah.

The Islamists could get their biggest government role in secular Turkey's modern history if the meetings are successful in forging a governing coalition. Refah, appointed to form a new government, has the biggest parliamentary group with 158 MPs in the 550-seat house. But it has been unable to find coalition partners since narrowly winning last year's general elections, at which the then prime minister Mrs Çiller and the DYP came second. *Reuter, Ankara*

ECONOMIC WATCH

## Finland set for 2-3% growth




Finnish gross domestic product figures for the first quarter were in line with expectations and showed the economy is well on track for full-year growth around 2-3 per cent as forecast. GDP rose by 1 per cent year-on-year and by 0.7 per cent quarter-on-quarter seasonally adjusted, according to Statistics Finland. Growth is expected to remain slow in the second quarter, but to accelerate in the rest of the year, economists said. Private consumption, boosted by increases in disposable income, has become the engine of growth, while growth in exports and industrial production has waned as demand has slipped in key European markets. Exports shrank 2.4 per cent year-on-year in the first quarter, and the rise in manufacturing production slowed to 0.4 per cent. Industrial output surged 16.1 per cent year-on-year in the first three months of 1995, and rose respectively by 9.2, 7.6 and 4 per cent in the succeeding quarters. *Reuter, Helsinki*

■ Sweden's balance of trade showed a preliminary SKr12.4bn ($1.8bn) surplus last month, against SKr9.7bn in May last year and a revised SKr10bn in April.

هكذا من الاصل

# Bosnia wins go-ahead for elections

By Laura Silber, Balkans Correspondent

The head of the Organisation for Security and Co-operation in Europe (OSCE) yesterday gave the go-ahead for Bosnia's first post-war elections to take place on September 14.

Mr Flavio Cotti, the Swiss foreign minister, who holds the OSCE chair, told the OSCE permanent council: "The decision to give the green light for the elections, and, I say this to you in all frankness, has been anything but easy."

Despite numerous violations of the Dayton peace accords, Mr Cotti was under intense pressure, in particular from the US, to certify elections could be held within the time period ontlined by the year-long Dayton agreement.

All three sides have failed to respect freedom of movement and allow the return of refugees.

Mr Cotti's announcemant coincided with remarks from a senior Bosnian Serb official signalling that Mr Radovan Karadzic, the Bosnian Serb leader wanted on war crimes charges, would soon resign.

Mr Momcilo Krajisnik, Speaker of the Bosnian Serb assembly, yesterday said the Bosnian Serb leader "would sacrifice his power if that is in the interest of the Serb peace.

"There are certain warnings that every rational party should listen to," he said after talks with Mr Carl Bildt, the High Representative who is responsible for the civilian side of the Dayton accords.

International mediators have threatened to re-impose sanctions on Serb-led Yugoslavia unless Mr Karadzic disappears from the political scene.

The presence of Mr Karadzic is seen as a major obstacle to holding free and fair elections in Bosnia.

Under the Dayton plan, war criminals indicted by the international tribunal cannot hold public office and should be handed over to The Hague.

In Pale, Mr Karadzic's mountain stronghold in northern Bosnia, Mr Bildt said he was not seeking the immediate renewal of sanctions. "We mean serious business when it comes to the peace agreement. This is not a piece of paper to be treated like nothing."

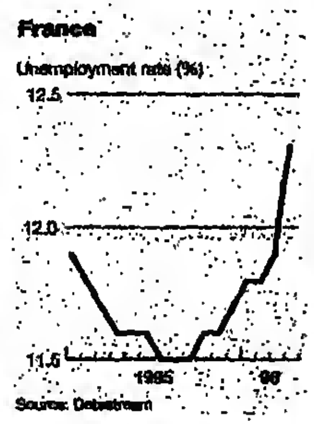
Mr Cotti yesterday added his voice to calls for the resignation of Mr Karadzic. "If the elections are to be effective, then every single possibility of direct or indirect exertion of inflnence by indicted war criminals lika Radovan Karadzic must be hindered," he said.

"He provokes the signatories to tha peace agreement and indeed the entira world by flaunting his freedom of action," he added.

Mr Cotti urged international organisations to work to establish the "minimum conditions" so democratic elections could take place. "The prerequisites... have not been fulfilled," he said.

# French jobless rate near record

By David Owen in Paris




The French government suffered a new setback yesterday when it emerged that unemployment had risen to within a whisker of its highest-ever level.

New figures released by Insee, the national statistics institute, put the number of peopla out of work in April at 3.145m – just 11,000 less than the record of 3.156m set in March 1994. This put the unemployment rate at 12.3 per cent, among the highest in the G7 group of industrialised nations.

The worrying news on unemployment coincided with release of separate figures showing household consumption fell in May for the fourth consecutive month. The rate of decline, however, slowed significantly to just 0.1 per cent from a downwards revised 1.5 per cent in April. Insee said the marginal nature of the latest fall indicated that consumption was stabilising.

Taken together, yesterday'a figures underlined the difficulty of the task facing the government of Prime Minister Alain Juppé as it seeks to stimulate growth while keeping public spending under tight control. Although gross domestic product grew by 1.2 per cent in tha first quarter, analysts predict a reversion to close to zero growth in the three months just drawing to a close.

Mr Juppé recently resorted to the promise of future income tax cuts in an effort to encourage consumers to spend more. But the new unemployment figures will reinforce analysts' expectations that snch spending is likely to remain subdued for the foreseeable future, especially at a time when scarcely a week passes without the announcement of large-scale job losses in ona sector or another.

Yesterday's figures came as Mr Jacques Barrot, labour minister, suggested that France's system of unemployment benefit should be structured so aa to encourage the jobless to look for work more actively.

Meanwhile, the government also confirmed that France's minimum wage – the "smic" – would be increased by 0.5 per cent from July 1. This will carry the net monthly minimum salary over the FFr5,000 ($965) threahold from FFr4,992.93 at present.

The 12.3 per cent unemployment rate released yesterday compared with a previous estimate of 11.9 per cent and followed an annual household survey conducted in March. The survey used international labour standard methods of calculation and, as such, differs slightly from French labour ministry data showing the number of job seekers.

# Banker refused entry to Russia

By John Thornhill in Moscow

Mr Boris Jordan, the best known foreign banker in Russia, has been denied re-entry to the country after his visa was stripped from him when leaving Moscow airport in May.

The move has unsettled foreign investors in Moscow who fear it is directly linked to a shareholder tussle at one of Russia's biggest industrial plants.

Many Russian company directors, who are often former Communist party members with good contacts in Moscow ministries, still view outside investors with hostility. There are few legal mechanisms for enforcing shareholder rights.

The investment bank Mr Jordan heads, Renaissance Capital, has recently been in confrontation with the Soviet-era managers of the Novolipetsk Metallurgical Kombinat after the bank acquired a 34 per cent stake in the metals plant and pressed for more financial information to be disclosed and auditors to be appointed.

Mr Jordan had been trying to assert the shareholder rights of investors, who collectively own 44 per cent of Novolipetsk's equity.

"There is no legitimate reason for Boris to lose his visa so the most likely conclusion is that one of the 'red directors' of the plants in which Renaissance is involved in a contentious restructuring has put an obstacle in Boris's path," a bank official said.

Russian officials have refused to explain why Mr Jordan's visa was revoked. But the Renaissance bank official said Mr Jordan was hopeful of receiving a new visa once political tensions eased after next week's presidential elections.

# Poland offers Ukraine a view to the west

**Matthew Kaminski** on neighbourly support for an attempt to shake off Kiev's strong bonds to Moscow

Ukrainian President Leonid Kuchma, a frequent flyer to Moscow, yesterday began his second visit to Poland in just three weeks, underlining a shift in Ukrainian foreign policy from east to west.

Ukraine is vigorously trying to recast itself as a central European country eager for membership of the western world's elite clubs and wary of the options for co-operation offered by a Russia caught up in presidential election politics.

A public tilt toward a European, liberal and independent future for Ukraine would fulfil the best-case hopes for regional stability drawn up by western strategists concerned that the country might revert to Russian domination or break-up in civil war. And a rapprochement between Kiev and Warsaw would bring together eastern Europe's two largest countries.

Poland's President Aleksander Kwasniewski this month won praise from the west for extending Mr Kuchma an unprecedented invitation to an annual summit of central European presidents held in Lancut, a Polish medieval city. There, Mr Kuchma declared clearly, for the first time, that Kiev wanted to join the European Union.

He called for the EU to start negotiations on a free trade area on time in 1998. He also said Ukraine wanted to strengthen ties with Nato – short of membership – and quickly to join the World Trade Organisation and the Central European Free Trade Area. And yesterday President Kwasniewski pledged Polish support for Kiev's bid to join the latter.

"Does the exclusion of Ukraine's 52m people from Europe make sense," Mr Kuchma asked a Warsaw weekly, Polityka, after the summit. "I reckon Europe is too small to give up on us easily. And, in fact, Ukraine was always in Europe, and history forces us to remember this."

Poland has welcomed Kiev's adoption of an internal reform programme and policy of deepening ties with the west as the key to creating a strong buffer against Russia.

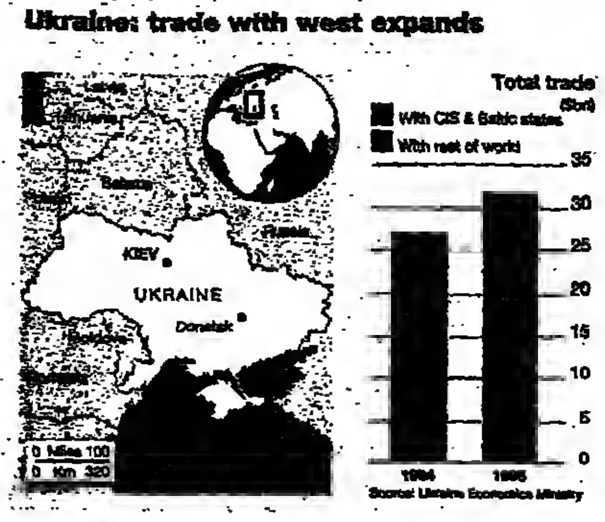
"It is all the more significant because if Ukraine becomes truly independent and European, then the chances that Russia will do the same, rather than revert to great empire tendencies, are all the greater," said Mr Janusz Onyszkiewicz, former Polish defence minister.

The two are unlikely allies. Poland in the past has violently blunted Ukrainian national ambitions. But Poland's break from the Soviet bloc gave impetus to the non-Russian republic's freedom movements. Warsaw was first to recognise Ukraine's independence. The current borders, created when Stalin moved Poland 200km west, were acknowledged the following year.

Political contacts are catching up with the first symbolic acts, in spite of occasional flare-ups over Polish Catholic missionaries in Ukraine or unresolved tensions stemming from the post-war fate of the Ukrainian minority in Poland.

Mr Andrzej Olechowski, a former Polish foreign minister, this month signed a joint declaration with Rukh, the Ukrainian independence movement, to step up inter-government contacts and hold more joint military exercises.

"Leave the history to the historians," said Mr Hennady Udovenko, Ukrainian foreign minister, who has been ambassador to Warsaw. "Our relations with Poland are developing very quickly."




Trade has picked up too, from $199.4m in 1993 to $714.6m last year (still only 2 per cent of all Ukrainian trade), but the statistics fail to include a lively cross border "shuttle trade" in consumer goods.

Warsaw lobbied for Ukrainian membership in the Council of Europe last year and this month in the Central European Initiative, another regional forum. But Polish support might be limited by concern in Warsaw that entanglement in Ukraine might jeopardise its own aspiration for EU membership.

Ukraine's ambitions at the EU may be hard to realise. It was the first former Soviet state, after the Baltics, to sign a partnership and co-operatioo agreement with the EU in 1994, but remains one of eastern Europe's poorest and least reformed countries.

As a result, the free trade agreement sought in two years might not make economic sense. Mr Udovenko's call for associated membership, which implies eventual membership in the EU, "is quite o long way away," an EU official said.

Paradoxically, Mr Kuchma, a Soviet-era industrial boss, won office in 1994 promising to "integrate" Ukraine with Russia. But, exhibiting the independent streak of past Ukrainian leaders that led anxious Tsars and party secretaries in Moscow to crack down on their unruly southern province, Mr Kuchma has been a strong defeoder of Ukrainian sovereignty.

The broad western backing buoys Mr Kuchma. In a speech before the Western European Parliamentary Assembly in Paris this month, he said financial and political support from abroad ensured Ukraine would not "disappear from the political map of Europe". But he cautioned: "It is not possible to build a system of security in Europe without Russia."

The unstated threat to stability, in Ukrainian eyes, remains Russia. Mr Udovenko expects increasing Russian pressure on Ukraine for closer political and military links regardless of who wins the Russian elections next week. He said Ukraine waots to "integrate" with Europe and enjoy "good normal relations" with Russia – a semantic obout-face for Ukraine since last year.

Ukraine's initial ambivalence about its future has been clarified. But the choice may not be theirs entirely. Many Russian analysts believe the Ukrainian elite will naturally gravitate back to Moscow, for the economic and cultural bonds are too strong to break.

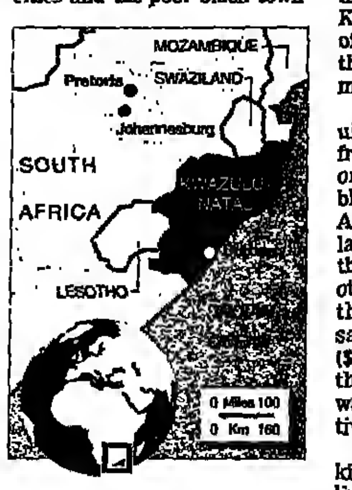
# Zulu heartland yields to death and democracy

The derelict school at Shabashobane, a hilltop village on the south coast of KwaZulu Natal, will be busy today for the first time this year. Villagers hope its revival as a polling station in the province's long-awaited local elections will herald the return of the teachers who fled seven months ago in fear of their lives.

The poll is a rite of passage for a province uniquely burdened by African feudalism and the legacy of apartheid. Since the massacre of 19 residents on Christmas Day last year, Shabashobane has symbolised the carnage of the low intensity warfare that claims 50 lives a week in the province. The survivors are under 24-hour police protection. The dead are buried under concrete to prevent desecration of their graves by residents of neighbouring valleys.

Over recent months many of the province's 3.5m voters have had a first taste of electioneering – an experience curtailed in April 1994 when the Inkatha Freedom party threatened to boycott the all-race general election until the week of the poll.

Most of South Africa voted last November for new local councils to integrate administratively white towns and cities and the poor black townships on their outskirts. It was the final tier of apartheid government to go, but boundary disputes and recurrent violence brought two postponements in KwaZulu Natal.




For many voters, the campaign has brought little cause for optimism. News of a peace initiative led by rival leaders of the ANC, which dominates the national government, and Inkatha, which won a slim majority in the province in 1994, is greeted with scepticism in Shabashobane.

An ANC fiefdom in the heart of an area loyal to Inkatha, Shabashobane has become a permanent refugee camp.

In most parts of the province, the conflict between factions aligned to the ANC or Inkatha has little to do with policy. Shabashobane was traditionally an Inkatha area, until a dispute over the succession to a local fiefdom enabled the ANC to gain a foothold. "It makes little difference which party dominates a region, because all it takes is a chink in the community and their opponents will move in and open a local branch," says Mr Nicholas Claude, a researcher at the University of Natal.

The spirit of political pluralism that swept South Africa in 1994 election has made little impact on KwaZulu Natal, which remains the only part of the country where elected politicians still dispute the case for democratic government.

This is due largely to the entrenched tribal loyalties in rural areas, where Inkatha-aligned chiefs perceive democratic local government as a threat to their authority.

Their animosity to the ANC dates from the period when the ANC was outlawed and Inkatha built solid support among chiefs fearful of the organisation's socialist agenda at the time. ANC members point out that many such chiefs are autocratic and corrupt.

In an attempt to defuse these tensions, the government has transferred the payment of chiefs' annual salaries away from the provincial government to the national coffers. But the ploy has not placated the chiefs. "When you've got massive poverty, huge areas, lack of development, it becomes hugely problematic to replace tribal authority with elected officials," says Mr Walter Felgate, a national MP and Inkatha's chief constitutional negotiator.

Similar concerns exist among tribes in other provinces, but they are inflamed in KwaZulu Natal by the history of conflict with the ANC and the warmongering traits of many local leaders.

In Bhambayi, a densely populated squatter camp 30km from Durban comprising not only Zulus but a variety of black ethnic groups, the local ANC and Inkatha groupings last week reacted angrily to the sight of politicians from other areas electioneering on their streets. It would, they said, jeopardise a R12m ($2.75m) development project that has brought running water, better roads and tentative peace to the township.

Since the project began, the killing, which has claimed 700 lives since 1992, has subsided from its 1993 peak when a quarrel among local drug dealers brought ANC-supporting youths into conflict with gangsters nominally aligned to Inkatha. Their truce, says Anne McKay, who offers weekly counselling to the survivors of violence, is based on the knowledge that "if violence erupts again, they will lose everything".

"We are limping towards peace," she says.

However, attempts to accommodate tribal tradition in the election have compromised the principle of one man, one vote while granting special privileges to minority groups.

On the six regional councils, 20 per cent of seats have been reserved for tribal chiefs, and a further 10 per cent for white, rate-paying landowners.

In metropolitan areas, "transitional arrangements" agreed prior to the April 1994 election allow predominantly white suburbs to elect the same number of councillors as the over-crowded black townships.

Disputes over the merits of this mangled version of democracy are set to continue long after today's poll.

**Mark Ashurst**

# Germany isolated over IMF gold sales

By Robert Chote, Economics Editor

Germany is alone among the Group of Seven leading industrial nations in remaining firmly opposed to the sale and reinvestment of International Monetary Fund gold to help fund debt relief for poor countries, senior G7 finance ministry officials said yesterday.

Debt relief will be a significant theme at the G7 summit which gets under way in Lyons tomorrow. The French hosts are hoping for a breakthrough on gold sales – to which they were initially opposed – as a centrepiece of the meeting.

Officials said Italy and Japan had both indicated they might be prepared reluctantly to consider gold sales. Investing the proceeds of gold sales could pay to put the IMF's concessional lending facility on a permanent footing and to extend the maturity of these concessional loans as the IMF's contribution to the joint debt relief initiative it is drawing up with the World Bank.

The World Bank's board has already agreed informally to allocate $500m to the debt relief initiative in financial 1996 and $200m a year thereafter in a "firm and almost open ended commitment".

But German government officials said yesterday they were still opposed to gold sales to fund the IMF's contribution. Germany believes the IMF's plan to sell $2bn of its $40bn gold reserves would set an undesirable precedent, and that it is dangerous when the IMF has been lending heavily to Mexico and Russia.

Officials fear the summit may now end in a stalemate on debt relief. Germany will argue that it is prepared to offer fresh bilateral money, but not to sell IMF gold. The US and UK are in favour of gold sales, but against further bilateral contributions.

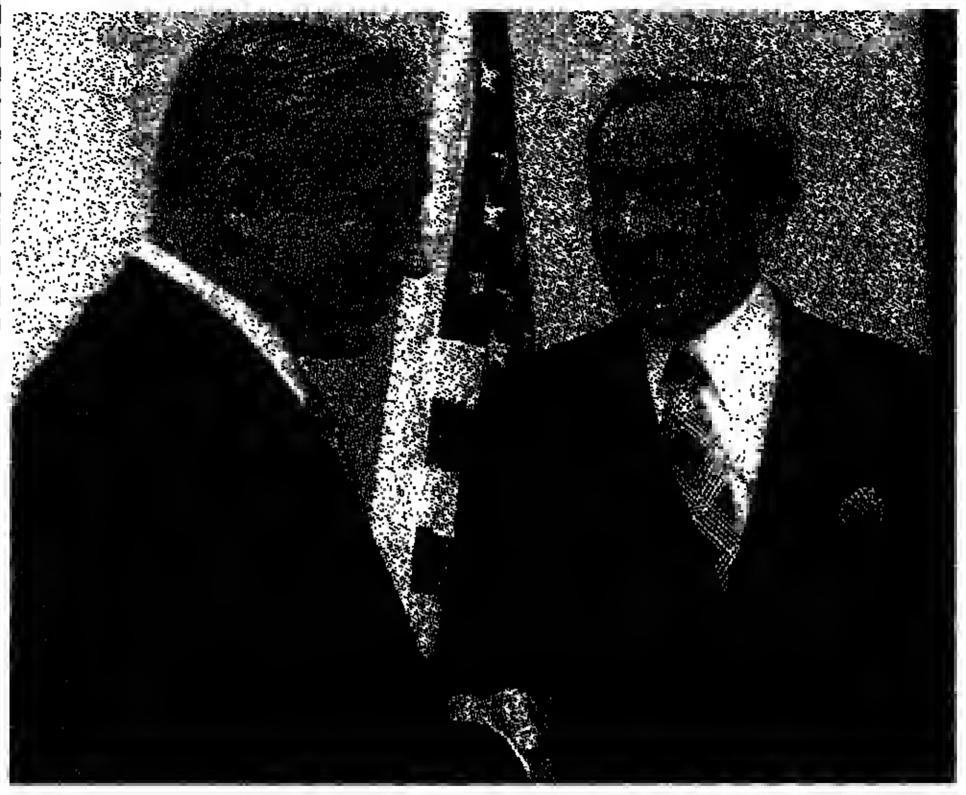
The US came under attack from both France and Germany yesterday on its attitude to debt and aid issues. German officials said the G7 process was coming under strain because financial burdens were not being shared fairly. They singled out the US's $1.5bn arrears to international financial institutions.

But President Clinton is likely to point out that the administration has been committed to funding operations such as the World Bank's soft-loan arm, the International Development Association, but that the money has been blocked by congress.

Officials at the World Bank and IMF hope that, notwithstanding these disagreements, the G7 will be able to give clear direction to the Paris Club of creditor governments on the size of the contribution it should make to the World Bank/IMF debt initiative.

Paris Club members appear to be edging to a compromise under which the 67 per cent relief on eligible debt offered under the so-called "Naples terms" could be increased to the equivalent of 80 per cent.

But rather than raising the percentage relief offered, this might be achieved by extending the definition of eligible debt to which relief was applied.



## Netanyahu remains vague on peace deal

Mr Benjamin Netanyahu, Israel's prime minister (above left), yesterday left Mr Warren Christopher, US secretary of state (right), guessing about his commitment to international Middle East peace accords and the US-backed framework of negotiations, writes Julian Ozanne in Jerusalem.

During Mr Christopher's first visit to Israel since Mr Netanyahu's victory in elections last month the new prime minister refused to give a commitment that his government would honour Israel's promise to pull troops out of the Israeli-occupied West Bank town of Hebron, a flashpoint of Arab-Jewish violence.

He also remained vague about his government's willingness to deal directly with Mr Yassir Arafat, president of the Palestinian Authority and, according to officials, he told Mr Christopher he wanted to review the framework of Israel's negotiations with Syria.

Mr Christopher's visit followed a weekend Arab summit in Cairo which warned Israel against deviating from the land-for-peace principle and came ahead of Mr Netanyahu's first visit to Washington as prime minister next week.

Editorial Comment, Page 13

# Pakistan denounces India on test ban

By Frances Williams in Geneva

Pakistan yesterday denounced India's declaration last week that it would not sign a nuclear test ban pact as now drafted, warning that the decision "could apell the death-knell of the treaty".

Mr Munir Akram, Pakistan's ambassador to the treaty talks, insisted the accord could not come into force until ratified by the five official nuclear weapons states – the US , Russia, Britain, France and China – as well as Israel, India and Pakistan, the three "threshold" states.

This condition – also backed by Britain, Russia and China – has raised fears that the pact, even if agreed, may never be operational. Most other nations, including the US, support a proposal by Mr Jaap Ramaker, the Dutch chairman of the negotiations, for a "waiver" that would in the last resort allow the treaty to come into force without one or more of the eight.

Addressing the 61-strong United Nations disarmament conference, which is racing to finalise the treaty by Friday, Mr Akram said this approach ignored "fundamental strategic and political realities". "To those who live in the 'real world', it is clear that if one of these states is out of the treaty, all of them will be ont," he said. A treaty without one or more of the nuclear-capable countries would be "a farce".

Tbe present draft pact requires all 37 states with planned nuclear test monitoring stations on their territory to ratify before entry into force. These include the eight nuclear and threshold countries.

However, India which objects to any entry-into-force conditions requiring it to ratify, served notice on Monday that it would not participate in the monitoring arrangemants if it did not sign the treaty.

Mr Akram said yesterday that instead of looking for "waiver" solutions negotiators should be trying to bring India on board by strengthening language on disarmament.

New Delhi said last week it could not subscribe to the draft treaty because of "weak and woefully inadequate" references to nuclear disarmament.

Bnt western diplomats say there is no chance whatever that India's demand for a treaty commitment to eliminate atomic weapons within a fixed time-frame will be agreed by the nnclear powers.

# UK team heads for Tokyo in copper probe

By Jimmy Burns and Norma Cohen in London

A three-man team from Britain's Serious Fraud Office flies to Japan today to step up the investigation into tbe Sumitomo copper affair.

The main purpose of the trip will be to establish a close working ralationship witb their counterparts in Japan'a special prosecutor's office. The SFO investigators do not intend to interview Mr Yasuo Hamanaka, Sumitomo Corporation'a former chief copper trader, on this trip.

The SFO does not have any powers at this stage to interview individuals linked to the affair, but is looking to see if there is any evidence that huge losses incurred by Sumitomo involved fraud in its operations in the City of London.

The UK investigators are seeking access to the trading records of Sumitomo in an effort to discover the identities of the counterparties to trades in the UK arranged by Mr Hamanaka which led to at least $1.8bn – and perhaps as much as $4bn – in losses for the metals trading company.

Tha SFO team is led hy a senior lawyer, Mr Andrew Jackson. He will be accompanied by Mr Michael O'Brlen Kenney, a forensic accountant, and Detective Chief Inspector Mick Fox, from the City of London police fraud squad.

The US Commodity Futures Trading Commission was also sending two staff members to Tokyo last night.

The three men are expected to interview Sumitomo's counterparties to laarn more about the tarms of certain transactions.

Regulators suspect that Mr Hamanaka was able to hide the losses from his superiors partly becausa Japanese accounting rules do not require that positions be "marked to market". That is, they are not required to disclose the value of each commitment to buy or sell copper as though that commitment had to be honoured immediately. However, what is shown in the accounts as profits are the cash premlums raised from the sale of options. It is understood that Mr Hamanaka heavily sold "put" options for cash which gave counterparties the right to put copper to him at a set price at some point in tha future.

In order to ensure that the option not only raised cash but was profitable as well, he "would have had to ensure that copper prices moved so that the option would be out of the money at the time the option expired", according to one copper market regulator.

Regulators are understood to be investigating whether copper prices had been manipulated by a group of individuals for personal profit.

After rallying yesterday morning, copper prices fell back in after-hours trading on the London Metal Exchange to reach a new 2¼ year low of $1,775. In Tokyo, Sumitomo shares closed at a 1996 low, falling Y20 to Y980.

# Global privatisation may raise up to $85bn in 1996

By Richard Lapper, Capital Markets Editor, in London

Receipts from global privatisation issues are expected this year to surge to their highest ever levels, according to a report* published yesterday by the Organisation for Economic Co-operation and Development (OECD). The report says that issuance could rise to as high as $85bn, compared with $62.3bn in 1995 and $69.1bn in 1994.

The governments of OECD countries have raised more than $8bn in the first four months of 1996 but are expected to raise up to $60bn for the year as wbole. The report says that buoyant conditions in international equity markets, coupled with relatively stable macro-economic conditions, provide a favourable environment for offerings.

It expects heavy issuance from Germany, where the government is expected to raise $10bn from new shares in Deutsche Telekom, predicting overall proceeds for Germany of $16.9 bn. France and Italy are also expected to be very active, with proceeds of $4.5bn and $6.3bn respectively. Issuance from Japan is expected to reach $6.3bn, from the UK $6.4bn and from Australia $4.9bn.

Countries from outside the OECD are expected to raise up to $25bn, with the sharpest rise in Latin America, where an issue of more than $1bn by Telefonica del Peru, the Peruvian telecommunications company, is expected to come to the market shortly.

However, the report warns that "in view of experience thus far this year, governments in these countries will have to intensify their privatisation efforts considerably if their ambitious targets for 1996 are to be achieved". The report says that international investors have become increasingly important buyers of privatisation stocks. Last year they bought 50 per cent of stock issued, compared with only 33 per cent in 1993 and 1994, although the percentage this year is expected to fall to 40 per cent.

It says "policy makers and academics have slowly become convinced that state ownership tends to lower internal efficiency of companies in product markets". The biggest problem could well be the sheer scale and number of privatisations. "Probably the largest cloud on the borizon is tbe sbeer amount of new privatisation equity coming to the market."

**Financial Mwrkets Trends June 1996 OECD, 2, rue André-Pascal, 75775 Paris, Cedex 16. Financial Market Trends subscription FFr280 in France. All other countries $67.*

# INTERNATIONAL NEWS DIGEST

## WHO warning on TB drugs

The World Health Organisation yesterday warned that the misuse of drugs to treat tuberculosis in South Africa could result in tha spread of a new and incurable epidemic to continental Africa and the developed world.

"If we don't act now, we will have a situation that we can't control," said Dr Donald Enarson, a director of the Paris-based International Union Against TB and Lung Disease. "There is no doubt that in the cabins of aeroplanes we are all at risk."

In a report released yesterday, the WHO found the spread of infection has been accelerated by the country's Aids epidemic, which weakens the immune systems of people exposed to airborne bacteria.

The accelerator effect of the HIV virus increases the likelihood of contracting airborne tuberculosis bacteria by a factor of 30. In South Africa, tuberculosis accounted for more than 80 per cent of recorded incidents of communicable disease in 1995. If current trends continue, the incidence of the disease will almost double from 1.7m cases to 3.5m within 10 years.

*Mark Ashurst, Johannesburg*

## UK proposes improved links between global regulators

The UK will propose a scheme to improve co-ordination between national regulators of global financial institutions at this week's summit of the Group of Seven leading industrial nations in Lyons, France.

Many international financial businesses are now subject to scrutiny by a large number of regulators in different countries. The UK proposal would see a "convening regulator" appointed for each business, which would be responsible for initiating and co-ordinating the response of all the affected regulators in the event of a crisis. The Bank of England would probably be covening regulator for NatWest Group, for example.

"It would be helpful to have one national regulator recognised as *primus inter pares*," a senior UK official said yesterday. But he added that each regulator would retain its existing legal responsibilities. The UK hopes tha G7 will agree to commission further work on the proposal at the aummit.

*Robert Chote, London*

## Burundi president and PM call for help to end tribal warfare

Burundi's president and prime minister yesterday put aside their ethnic differences and called for help in ending the tribal fighting that has killed 150,000 people.

It was the first time the government, which had pledged not to ask for outside help, spoke in unison on ending violence between the country's army, dominated by minority Tutsis, and rebels of the majority Hutu.

"We have said that we are not for an intervention force imposed from the outside," said Mr Antoine Nduwayo, the Tutsi prime minister. "But . . . we have identified needs that are great, and the government of Burundi is requesting this assistance."

President Sylvestre Ntibantunganya, a Hutu, told reporters after a summit meeting of regional leaders: "There is a strong will that the violence that we have known in Burundi has got to stop." Neither Mr Ntibantunganya nor Mr Nduwayo would provide details about the requested aid.

*AP, Arusha*

# Oil price alert on Saudi state finances

**Robin Allen** on the likely end to a revenue bonus

The return to world markets of Iraqi oil in the next few months threatens to bring prices down and disrupt the finances of the world's biggest oil exporter, Saudi Arabia.

Home to a quarter of proven global oil reserves, Saudl Arabia bas this year earned between $3bn and $5bn ln extra revenue from selling oil at $18 to $19 a barrel, well above the $14 a barrel on whicb its 1996 budget revenues were based.

But since the Organisation for Petroleum Exporting Countries failed at its meeting in Vienna earlier this month to make room for the Iraqi sales by limiting overall production, many market analysts have beeu predicting a substantial drop io oil prices. The London-based Centre for Global Energy Studies (CGES) bas forecast that prices migbt fall in the second half of tbis year to around $16 a barrel in tbe third quarter and about $13 in the fourtb, eveo witb growing demand in the industrial countries. Oil income provides some 75 per cent of Saudi Arabia's annual budget revenue.

Some economists and diplomats in Riyadh say the extra cash reaped from buoyant oil prices has had little impact oo domestic debt, fuelled by accumulated budget deficits and the government's failure to cut state subsidies.

Others agree witb Saudi American Bank's chief economist Mr Kevin Taecker, writing in tbe bank's June Economic Outlook: ". . . world commercial stocks are low and consumption is rising rapidly in Asia, particularly. But even if prices bead lower, it seems unlikely that Saudi Arabia's average price for 1996 will be mucb below $17 a barrel. Prospects are good for the current account to come into balance in 1996."

But even tbese "optimists" point to critical structural imbalances in tbe country's economy; and all agree that "no one seems to know where this year's extra oil revenue has gone", as one senior diplomat put it.

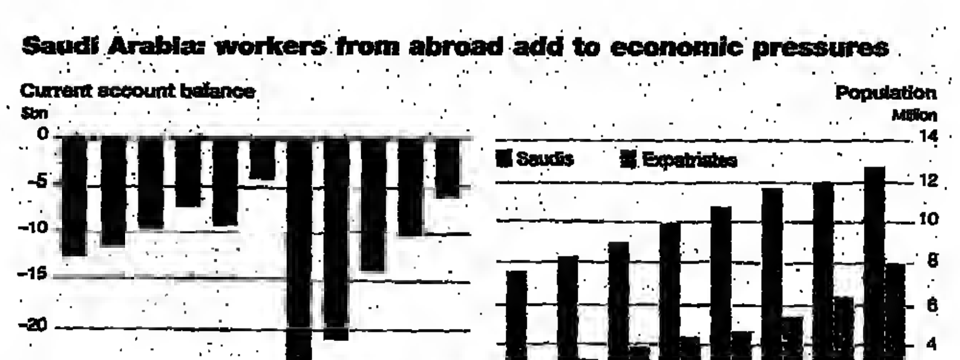
Last year, wben there was an actual budget deficit of $4bn, just over 3 per cent of gross domestic product, was the 13th consecutive year of both budget and current account deficits. Real growth in GDP last year was less than 1 per cent for the third year in a row.

Increasing numbers of foreign workers means expatriate remittances are likely to be more than the $15bn reckoned by the International Monetary Fund to have left the country for eacb of the last four years.

The government continues to try to disguise tha scale of fundamental economic weaknesses by making arbitrary claims or issuing selected budget and other figures.

An example is the government's claim of a 7.5 per cent growth last year in the non-oil private sector. Diplomats point out tbis assertion is based largely on another impressive performance by Saudi Basic Industries Corporation (Sabic), the petrocbemicals giant. Sabic bowever is neither private sector nor non-oil. It is 70 per cent owned by the governmeot; and it depends for its very existence and all its fuel and feedstock on Saudi Arabia's oil industry.

In otber cases, sucb as defence expenditure and the share of oil revenue withheld by the ruling family, the government issues no figures. However, thanks in part to the IMF, it is now easier to "pull the veil off Saudi public finance", as one western diplomat put it.



Source: FT

This year the deficit is projected at $5bn. To limit the deficit to this level, the government has pruned expenditure on defence and security by 8.9 per cent compared with last year, to $12.1bn.

Allocations for municipalities and water have also been cut, althougb "according to finance ministry data, water consumption is rising at an average annual rate of nearly 9 per cent", writes Mr Taecker. "At that rate, water consumption will double every eight years. For lack of payments for past work and future financing, vital projects face delays."

In April and May the government made a second, SR6bn ($1.6bn), bond issue to settle overdue debts to state contractors and suppliers.

Total domestic debt is now put at some $100bn, nearly 80 per cent of GDP. "The government pays close attention to this debt ratio," commented a senior diplomat last week. The IMF recommends a 60 per cent debt-to-GDP ratio.

"The difficulty for the Saudis," another diplomat said, "is that short of a buoyant oil market, there are no other immediate ways of increasing revenue." This is partly because some 50 per cent of annual budget revenue goes to meet tbe pnblic sector wage bill alone.

Meanwhile, Saudi officials at the Opec meeting earlier this month were adamant that pessimistic oil price forecasts fail to take account of a number of positive factors tbat could underpin oil markets for much of the rest of the year.

They believe, for example, that oil demand in the buoyant Asian economies is higher than that recorded in official statistics. The reason, they say, is tbat the "black or underground economy in many Asian states is not reflected in official growth figures".

# Brazil's banking 'riskiest in region'

By Stephen Fidler, Latin America Editor

Brazil has the riskiest of all the main Latin American banking systems, according to a report issued this week by the US credit rating agency Standard & Poor's.

The report, which is likely to be strongly dispnted in Brazil, says: "Investors, counterparties and large depositors remain at risk when dealing with small banks in Brazil or banks with a weak financial profile and poor franchise valne."

It adds: "There are fine banks in Brazil, althongh fewer than bave regularly issned in the euromarkets." Among the top-tier banks named are Bradesco, Itaú and Unibanco.

Brazil's antborities bave long maintained that, while the country bas problem banks, there is no systemic problem. Standard & Poor's points ont that, apart from that in Chile, the systemic risk in all Latin American banking systems is high.

Mr John Chambers, one of the authors of the report, said that, while the Mexican banking system might appear to be in a worse condition than Brazil's, Mexico was, unlike Brazil, at the trough of its credit cycle. "We wouldn't say that Brazil is in worse shape than Venezuela, bnt I guess we don't consider Venezuela to have e major banking system," be said.

The Brazilian system's weaknesses derive from several sources, the report says. There is no system as yet to grade loans and no shared national credit system, although the central bank is developing one.

Furthermore, emong the main Latin American systems, Brazil alone still requires private sector banks to allocate e portion of certain liabilities to sectors deemed to be starved of capital.

High reserve requirements also discourage banks from seeking stable sources of funding.

# Dole takes initiative on TV poll plan

By Jurek Martin in Washington

Mr Bob Dole has stolen a march on President Bill Clinton by agreeing, with conditions, to a new proposal for presidential candidates to deliver short political speeches on free time donated by the TV networks immediately before the November elections.

But the presumed Republican presidential candidate yesterday found himself under attack from Vice-President Al Gore for "sweeping under the rug" more widespread changes in the way US election campaigns are financed.

The Dole campaign accepted on Monday night the blueprint proposed by the Straight Talk Coalitinn, tha lobby headed by Mr Walter Cronkite, the legendary and now retired TV anchorman. Its aim is to reduce the impact of "sound bite" reporting of elections and negative TV political commercials by permitting candidates to address the public directly in prime evening viewing time.

Mr Dole would deliver 10 two and a half minute mini-speeches, to be broadcast on alternating nights in the final four weeks of the campaign. Mr Clinton has expressed interest in the proposal, which would also be open to Mr Ross Perot or the nominee of his Reform party, but he has yet formally to respond. The only important condition Mr Dole stipulated was that Mr Clinton not giva his speeches from the White House Oval Office becausa that was where "the presideot of the United States addresses the nation in times of national emergency".

All the major networks have agreed to the plan in principle, with details still to be arranged. Mr Dole and Mr Clinton are also expected to take part in at least one head-to-head televised debate, a feature of US campaigns since the Nixon-Kennedy series in 1960.

Mr Gore's criticism yesterday came as the Senate began debating another version of campaign finance reform, though the threat of a Republican filibuster left the bill with little chance of passage. Just over a year ago, Mr Clinton and Mr Newt Gingrich, the Speaker of the Hnuse of Representatives, had shaken hands and promised to deliver within 12 months a reform bill that would lessen the influence of special interest money on political campaigns.

Mr Gore tartly remarked that Mr Dole clearly believed that "silence is golden because the less he says, the more special interest money he receives". That recalled Mr Gore's attack of last week when he accused Mr Dole of being in the pocket of the tobacco lobby.

The Senate bill, which has sponsors from both parties, does not propose the complete public financing of elections. But it recommends voluntary state-by-state spending limits and free TV time and would severely limit contributions by political action committees, tha device used to skirt restrictions on individual campaign donations.

# New head of steam for a slow sell-off

**Raymond Colitt** analyses the prospects for companies in Venezuela's privatisation programme

With investor confidence rising, aftar the launch of an economic plan backed by the International Monetary Fund, the Venezuelan government says it is determined to re-start its privatisation programme.

Privatisation was held up for more than two years by an unenthnaiastic government and by an economic crisia which depressed Venezuelan asset prices and made privatisation unattractive.

The delaya hava left more than a residue of scepticism. According to Mr Antonio Herrera of the Venezuelan-American Chamber of Commerce, "the privatisation plan has been dalayed for so long that it lacks credibility until it actually happens."

However, a growing number of observers believes that the governments means business this time. Mr George Kastner, head of Arthur D. Little in Caracas, said: "Long-term investment conditions are improving and I'm very bullish in edvising foreign investors about prospects for privatisation."

Government estimates suggest it could raise as much as $3bn by year-end. The first step will be the sale of Banco de Venezuela, which fell into state hands with more than e dozen other banks after the 1994 banking crisis. Softline Consultants now ranks it third in terms of total deposits.

Mr Gilberto Carrasquero, Venezuela representative of Salomon Brothers, lead manager in the bank's sale, says prequalification of interested buyers is under way. The base price will not be made public, in hope of boosting the bidding price. Bank officials say the bank has a book value of 43bn bolívars ($91m).

Most important in terms of potential revenues is the government's 49 per cent share in the telecommunications company, CANTV, of which a GTE-led consortium acquired a 40 per cent share in 1991 for $1.89bn. Lehman Brothers and S.G. Warburg, acting as investment banks, are preparing financlel and legel eudits before a road show for potential investors in the eutumn.

A first tranche of shares, about 34 per cent, is to he offered on domestic and international markets in the last quarter this year, whan the govarnment aees an opportunity between the sales of the Peruvian and German telecommunications companies.

The government expects as much as $2bn from the share package, proceeds of which will be used to pay off foreign debt, possibly that of the state aluminium companies so as to help their privatisation.

In 1994 and early-1995, CANTV had debt problems because of a shortage of foreign currency as well as low telephone tariffs. More recently the company has performed well, with a 1995 profit. Its debt to creditor banks was rednced by the end of last year. Mr Kastner says the company has also improved its services and labour relations. Already 11 per cent of the shares are in the hands of employees, who will have the option io bny another 9 per cent.

Officials of the privatisation entity, Fondo de Inversiones de Venezuela (FIV), are eware that time to sell off the remaining stake in CANTV is running out. In 2000, CANTV's monopoly on fixed lines and long-distance telephone service is to run out.

Also slated for privatisation in the last quarter this year are four aluminium companies, part of the state industrial holding company Corporación Venezolana de Guayana (CVG).

Venezuela's low fuel costs and extensive infrastructure, along with strong international aluminium prices, make the sector (ona of the most important non-petroleum industries with annual exports of more than $700m) attractive to potential foreign buyers.

Yet, while analysts see tha sale of Banco de Venezuela and even CANTV before the end of the year as feasible, they have doubts ebont the aluminium complex's timetable.

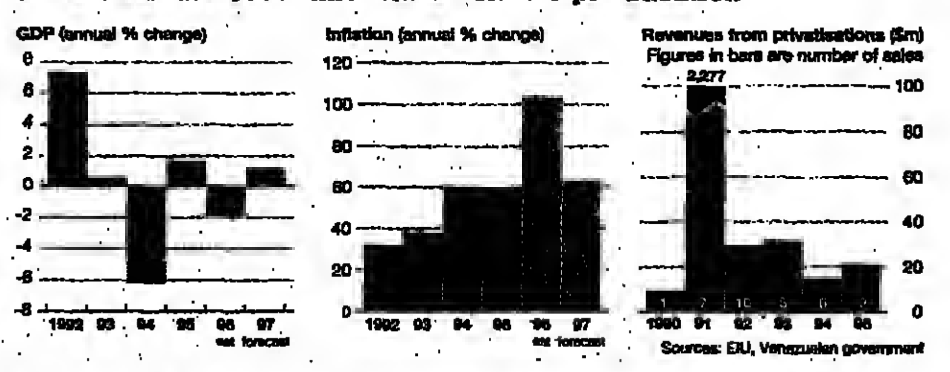
The four companies' high dabt, at soma $1.37bn, is a problem. It is still unclear whether – and, if so, how – the government will assume these liabilities. However, the FIV is discussing opiions with its advisers, tha brokers Merrill Lynch. Mr Alberto Poletto, FIV bead, said tha government is datermined to offer the companies in as good a condition as possible: "It'a like selling a car – you're likely to get a better price if you change the tyres and give it a new coat of paint."

Opposition by entrenched bureaucrats could also delay the sale of CVG subsidiaries. "Everyone is in favour of privatisation until it begins to affect the privileges of certain people. I spend a good deal of my time trying to convince our opponents," said Mr Poletto.

Until a new legislative framework is in place some time next year, the planned sale of the two electricity utility companies, Enelbar and Enelven, will not go ahead.

The privatisation of the steel company, Sidor, and the iron concern, Fesilven, are also scheduled for next year. Even if privatisation does not advance according to the timetable, many analysts say there is no turning back.

Mr Pedro Palma, vice-president of Booz Allen & Hamilton, said: "The government realises that privatisation is the only way to reduce substantially the public debt service." This, he said, eccounts for 7 per cent of gross domestic product.




AMERICAN NEWS DIGEST

## CEO pay rises average 23%

The pay of US chief executives continued to nutpace that of the national workforce last year, with an overage rise in tntal compensation of 23 per cent. This brought tho average chief executive's remuneration – including base salary, bonus and stock options – to $3.2m.

The latest annual survey by management consultants Towers Perrin said the median CEO base salary had risen 7 per cent to $805,000, while tbo median bonus had gono up 16 per cent to $725,000. Long-term incentiva payments, consisting of stock awards such as options, were worth an everage $1.4m.

Total incentive payments, including the annual boous, made up 66 per cent of total compensation, compared to 55 per cent six years ago. The survay, based on the proxy statements of 250 companies, also showed a sharp rise in CEOs' ownership of stock in their own companies. On average, such holdings were worth eight times base salary, compared with fiva times twn years ago. *Tony Jackson, New York*

## US consumer confidence down

US consumer confidence fali unexpoctedly this month but remained higber than in June last year, figures indicated yesterday.

The Conference Board, a US business group based In New York, said its confidence index bad fallen tn 97.6 against 103.5 in May. This surprised Wall Street economists who hnd predicted little change, given recent reports of rapld employment growth and buoyant retall spending.

Some analysts said the decline was consisted with projections of slower economic growth in the second half nf this year after a robust second quarter. But It may have just reflected the volatility of the index, which has fluctuated between 88 and 105 in the past six months. Historically a reading of 90 to 100 has indicated sieady economic growth.

Separate US figures yesterday showed o 1.4 per coot risc in sales of existing bomos in May ovar April, higher than most analysts had expected. *Michael Prowse, Washington*

## Alberta eases austerity

Alberta's conservative government has begun to loosen tho purse strings after four years of fiscal austerity thai has helped turn the oil-rich Canadian province's C$3.4bn (US$2.5bn) deficit into a C$1.1bn surplus.

The surplus for tha year ended March 30 was moro than double original estimates, thanks largely to booming tax revenues from the oil and gas industry.

Based on a voter survey, the govenment will use most of the surplus to start paying down the province's debt. Mr Jim Dinning, provincial treasurer, said spending on health care and education would rise by extra C$340m during the next two years. *Bernard Simon, Toronto*

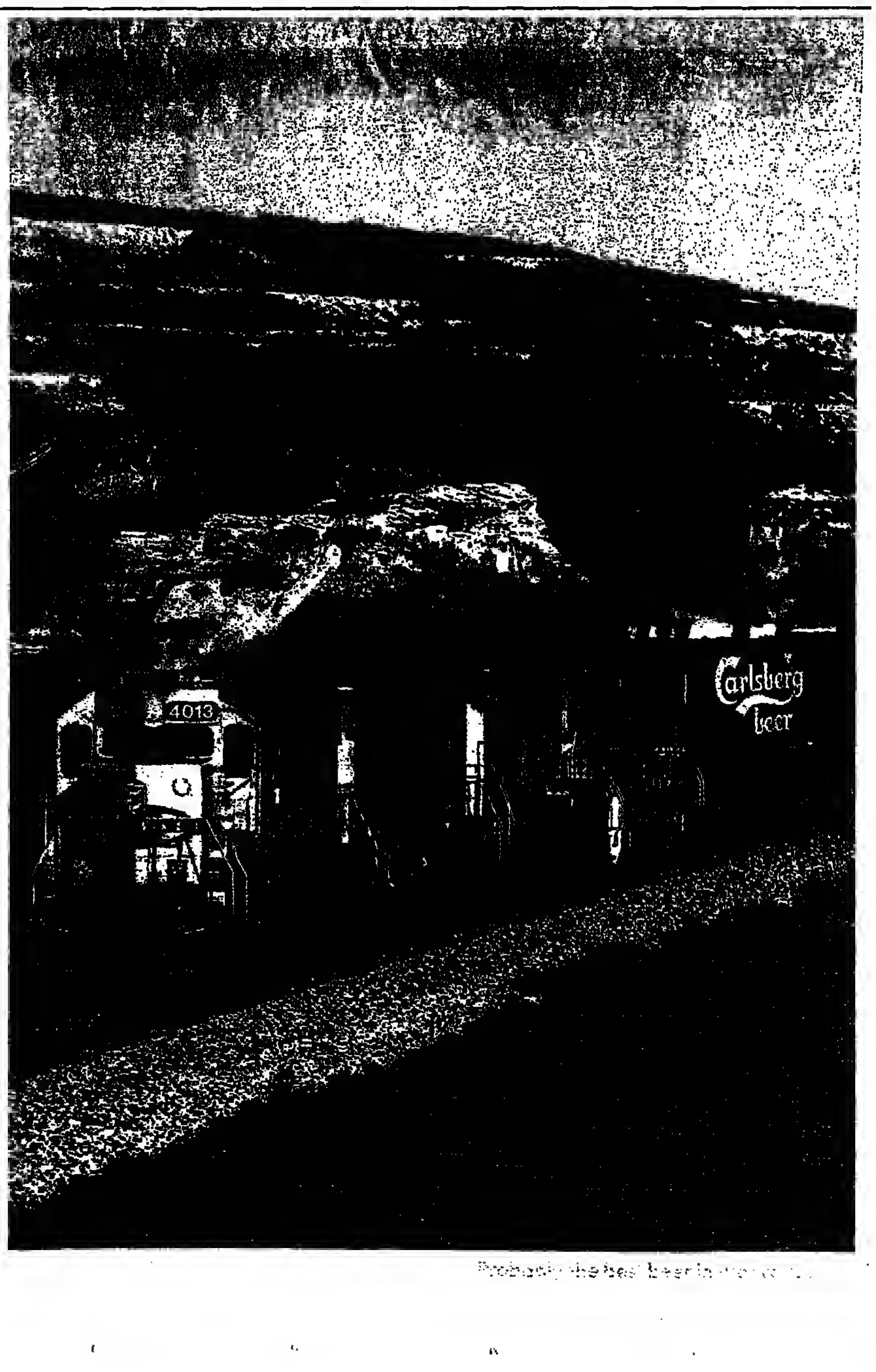
## Peruvians buy into telecoms

Peru's first big ettempt at promoting popular cepitalism seems to have been e success. By last weekend, and with only three days to go, almost 160,000 Peruvians had acquired packages of shares in the former state-owned telecommunications company, Telefónica del Perú, under e "citizen participation" mechanism, double the target figure.

Investment pledged by small investors totals the equivalent of some $215m, latest evailable figures said.

Tha larger, international tranche of the Telefónica dal Perú offering is being finalised by global co-ordinators JP Morgan and Merrill Lynch. The final offer price is to be announced on Monday. *Sally Bowen, Lima*





ASIA-PACIFIC NEWS DIGEST

## Chinese curb share trading

China has cracked down on local investors opening trading accounts in B-shares nominally reserved for foreigners, after a surge of domestic buying in Shenzen stock exchange's B index. The exchange, one of two bourses in China, said yesterday it had banned domestic investors from opening new B share accounts. The move reflects concern about possible central government intervention. The Shenzen market had risen by 60 per cent this year before sliding back yesterday. The Shanghai B market followed Shenzeo lower.

China A share markets are reserved for domestic investors, but locals have been increasingly putting their money in the B markets denominated in Hong Kong dollars in Shenzen and US dollars in Shanghai. In Shanghai, local investors hold 25 per cent of B share stock, but are responsible for 50-60 per cent of daily trades. Percentages may be higher in Shenzen. Chinese officials said locals holding B shares would not be obliged to liquidate their positions. An official of the Shenzen securities management office said the decisioo to open the market to local investors was "an error". *Tony Walker, Beijing*

## Japan doubtful over jobs-for-life

Japan's is seeing a sharp increase in the number of companies wanting to scrap jobs-for-life, according to a survey released yesterday. Over half a sample of 6,000 companies surveyed by the Japanese labour ministry say they no longer stick to the traditional system, a staple of Japan's relative social stability. This is a sharp increase on the 41.5 per cent making the same claim in a survey three years ago.

Larger companies are slightly less tough about "surplus labour" than smaller ones. Of businesses with 5,000 or more employees, 32 per cent wanted to scrap the lifetime rule. Over half of companies with fewer than 300 workers said they wanted to be free to sack people. *William Dawkins, Tokyo*

## Protests over consul's death

Burma's military regime is being called on to explain the death of a former consul in a Rangoon prison. The Danish government is under domestic pressure to demand action from the European Union against Burma, including a trade boycott.

Mr James Leonard Nichols, 65, consul in Rangoon for Denmark, Norway, Finland and Switzerland until his arrest in April, died at the weekend. In May he was jailed for three years for unauthorised possession of two fax machines and nine telephones. But it is widely thought the real reason was his friendship with opposition leader Ms Aung San Suu Kyi. Diplomats from Denmark, Norway, Switzerland and Finland are going to Burma to press for a full account of his death.

Mr Niels Helveg Petersen, Danish foreign minister, said yesterday he had initiated discussions with other EU governments about the case. *Hilary Barnes, Copenhagen*

## Republic move in Australia

A private member's bill to turn Australia into a republic and cut its ties to the British monarchy was introduced into the federal parliament by a Liberal party senator yesterday. The bill would make minimal changes to the existing constitutional set-up, except that references to the Queen and the governor-general, her appointee, would be removed. The present governor-general would become Australia's new president until a two-thirds majority in federal parliament picked a successor. The bill is likely to lapse when its sponsor, Senator Baden Teague, retires on Sunday. *Nikki Tait, Sydney*

### PM likely to call election before new rate hits voters' pockets

# Japan approves sales tax increase

By William Dawkins in Tokyo

The Japanese cabinet yesterday approved a long expected yet unpopular increase in sales tax, the first step in an attempt to rebalance the tax system and restrain a sharp rise in government debt.

Prime Minister Ryutaro Hashimoto asked his electorate "not to misunderstand" the tax rise, approved shortly before his departure for the Group of Seven economic summit in Lyons. The increase, from the present 3 per cent to 5 per cent, will be included in next year's budget, to take effect from April 1, 1997.

This will raise an estimated Y4,000bn-Y5,000bn ($36.7bn-$45.9bn) a year for the finance ministry's coffers, and make a measurable dent in the central government budget deficit, set et Y21,000bn this year, or 4.5 per ceot of gross domestic product.

Premier Hashimoto (right) with finance minister Wataru Kubo

At the same time, the tax increase will be a drag on economic growth. Estimates of the negative impact range from 0.5 percentage points at BZW in Tokyo, to 1.1 points at Mitsubishi Research Institute, which yesterday forecast that GDP growth would reach 2.1 per cent in the current year to next March – the lower end of market predictions – and ease to 1.4 per cent the following year.

Now that the government has confirmed the tax increase, political observers in Tokyo expect Mr Hashimoto to call a general election at the end of this year or early next year, before the new tax rate hits voters' pockets and his popularity rating in the polls.

This has ebbed a little recently, but the Liberal Democratic party still commands enough of a lead to win an election, either alone or as the dominant partner in another coalition.

An opinion survey yesterday by the Nihon Keizai Shimbun economic daily showed support for Mr Hashimoto's cabinet had fallen nearly 7 percentage points to 41.5 per cent over the past two months. The main opposition party is trailing with less than 10 per cent, according to other polls.

The decline in Mr Hashimoto's popularity is a reminder that sales tax, while low by European standards, arouses much sensitivity.

A former LDP government introduced the tax in 1989, under strong pressure from the finance ministry, and in consequence lost an upper house election the same year, the start of the erosion of the LDP's post-war monopoly on power.

Members of the three-party ruling coalition were yesterday debating ways to soften the impact of the tax rise. The LDP is considering extending for another year a temporary Y2,000bn income tax rebate.

Its centre-left coalition partners, the Social Democratic party and New Harbinger party, are urging a variety of measures, including a lower sales tax for food and drink and increased welfare payments for the poor and elderly.

The tax increase is less than the finance ministry had wanted, but a step in its campaign to correct Japan's uniquely unbalanced tax structure. At present, the state derives around two-thirds of tax revenue from direct taxation and the rest from sales tax. The balance in other leading mature economies is the opposite.

**Japan's economic outlook brightened slightly in April, according to the latest official data released yesterday, reports William Dawkins from Tokyo.**

**The government Economic Planning Agency's leading diffusion index, a basket of 11 indicators pointing to conditions in the next six months, rose to 55.6 in April, from 36.4 in March.**

**It was the first time in two months that the index stood above 50, which represents equilibrium between growth and recession. Before then, the index had stood at above 50 for six months in a row, a harbinger of the recovery which emerged at the end of last year.**

**Yesterday's figure suggests slower growth than indicated by the 12.7 per cent annualised increase in gross domestic product reported in the three months to March, the fastest in 23 years.**

**This supports most economists' belief that the pace of economic recovery, while strong, will ease in the second quarter of this year. Mr Shusei Tanaka, EPA director-general, yesterday predicted the recovery would become "self sustaining" in the current fiscal year.**

**In another sign of gentle recovery, the Japan department stores association yesterday announced sales by its 109 member companies increased 1.7 per cent in May, the fifth month of increase, and unchanged from the growth rate in April.**

**While a good sign, this is inconclusive evidence of a revival in consumer spending. The general measure of retail sales showed a 1.1 per cent decline in April.**

# China ends HK mobile phone licence deadlock

By John Ridding and Louise Lucas in Hong Kong

China has given its backing to the award of six new mobile telecoms licences in Hong Kong, clearing the way for a resolution of a protracted stand-off with Britain and the territory's government.

The two sides have been deadlocked for almost a year over the issue, seen as a test case of Hong Kong's business autonomy. China had blocked an earlier award of the licences, claiming fewer franchises should be awarded, apparently after pressure from telecoms groups in Hong Kong.

The list of licence winners is expected to include People's Telephone, a consortium led by China Resources, the mainland investment and industrial group; Hutchison Telephone, part of Mr Li Ka-shing's business empire; and the P-Plus group which includes Taiwanese investors.

Hongkong Telecom, the territory's dominant operator and a subsidiary of Cable and Wireless of the UK, appears to have been rejected.

An agreement is expected to be finalised by early next month, though officials indicated potential sticking points remained. These include China's request for a mid-term review of the 10-year licences.

Observers described the condition as a face-saving formula. "I doubt the new government would cancel or alter any licences," one analyst said, referring to the post-colonial administration to take office after next year's transfer of sovereignty to China. Under the treaties governing the handover, Hong Kong is to have autonomy in managing its economic system.

A senior executive of one Hong Kong telecoms company expressed concern. "Businessmen abhor uncertainty. There is enough uncertainty in the markets, especially highly competitive ones." Others warned of possible difficulties in securing finance and attracting customers because the condition placed a question over the duration of the licences.

The new personal communications services licences will increase the range of wavelengths available for mobile telecoms.

Over the past few months, existing operators have been engaged in a price war, reducing charges more than 50 per cent. Analysts say the market is still attractive, citing its strong expansion.

At the end of April, the number of mobile telecoms subscribers totalled 888,628, a sharp increase over the 798,373 at the end of March and a beginning-of-year figure of 687,600. With a penetration rate of more than 15 per cent, Hong Kong is one of the world's most developed mobile telecoms markets.

# Canberra refuses to give way on loans

By Nikki Tait in Sydney

Mr Alexander Downer, Australia's foreign minister, said yesterday that the new conservative federal government would not reconsider its plan to abolish the Development Import Finance Facility (DIFF) scheme, a "soft loan" scheme for projects mainly in the Asian region.

Abolition of the scheme – which costs around A$120m (US$95m) a year and provides aid worth about 35 per cent of a contract price – was first outlined in the coalition's pre-election material and attracted relatively little attention at that stage.

However, since the government took office in March, there has been storm of controversy over the scheme's withdrawal. Business lobby groups have argued that loss of the facility would reflect badly on Australia's standing in the Asian region, and that projects already in the pipeline would have to be abandoned.

The issue has also become a personal bugbear for Mr Downer, who told federal parliament last week that the subject had never been raised at ministerial level – thus implying that it was not a major issue in regional relationships.

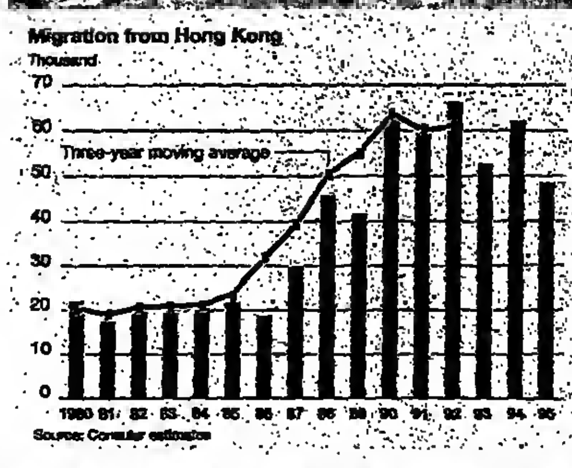
However, he has since conceded that the matter was discussed with two senior ministers in the Indonesian government in Jakarta two months ago, and that concerns had been expressed in correspondence with the Chinese government – a discrepancy which has led to two unsuccessful censure motions against the foreign minister.

Last night, it was confirmed that concerns were also raised more formally in a letter from Mr B.J. Habibe, Indonesia's influential minister of research and technology. This correspondence had not previously been disclosed to parliament.

However, the foreign minister has refused to budge on the main issue. Mr Downer insisted the government "will not be reviewing the decision" to abolish DIFF.



# Many rocks still litter HK's road to a smooth handover





Preferences for First Chief Executive

Per cent

| | DEC 1995 | MAY 1996 |
|---|---|---|
| Anson Chan | 50.7 | 38.5 |
| Martin Lee Chu-ming | 16.2 | 10.5 |
| Sir Ti Liang Yang | 6.4 | 7.2 |
| Tung Chee-hwa | 0.2 | 6.2 |
| Leung Chun-ying | 3.3 | 3.0 |
| Sir Sze-yuen Chung | 3.1 | 2.0 |
| Lo Tak-shing | 1.0 | 1.2 |
| John Chan Cho-chak | 2.8 | 0.5 |
| Others | 3.5 | 6.7 |
| No opinion/refused | 13.0 | 7.1 |

(405 respondents)
Source: South China Morning Post

**A lot of vital issues have been put aside until the very last moment, John Ridding writes**

As the giant digital clock in Beijing's Tiananmen Square moves toward the final year of its countdown to Hong Kong's return to China, many obstacles still remain to a smooth transition. While it may be unsurprising that many tough issues have been left until last, the run-up to the handover on July 1 next year could be difficult.

The most important decisions concern the chief executive, who will head the post-colonial government, and China's plans to replace the existing elected legislature. But also outstanding are legal issues of acute concern to the business community and significant, if symbolic, decisions relating to the handover ceremonies.

Manoeuvring to secure the position of chief executive has begun in earnest. Mr Tung Chee-hwa, the mercurial shipping magnate, this month signalled his interest in the prize when he announced his resignation from the territory's Executive Council. Mr Tung is a strong contender, considered more likely than Mrs Anson Chan, the popular Chief Secretary whose ties to the present administration weaken her chances of the top job. Mr Lo Tak-shing, a solicitor seen as a hardline option, has also launched his campaign.

Despite the flurry of activity, the decision is running behind schedule. The 400-member selection committee which will choose the chief executive has yet to be formed, pushing the original autumn timetable for the appointment to the end of the year. "We have to step up the pace," says Mr Tsang Yok-sing, leader of the pro-Beijing Democratic Alliance for the Betterment of Hong Kong.

While delay reduces the length of any destabilising period of twin executives, it prolongs uncertainty. It raises fears of divisions and indecision in Beijing about its favoured candidate and a worry that timing may affect the decision.

"If time is running out, the temptation would be to play safe," says Mr Michael de Golyer, head of the transition project at Baptist University. "For Beijing, that means ensuring control." He sees this damaging Hong Kong's confidence and fuelling emigration.

Delay might seem more appealing on the issue of Beijing's plan to replace the territory's elected legislature, the main cause of dispute between China, Britain and the Hong Kong government. A Chinese official said this week he hoped to keep a majority of LegCo members on the new body; others stress the replacement legislature will not play a prominent role ahead of handover.

This stance has shelved rather than solved the problem. The LegCo issue will continue to threaten the improved relationship between Beijing and London and cloud confidence. "This is something of a time-bomb," one western diplomat said. "Unless this can be resolved, there is always potential for breakdown in the transition process."

On other issues, there is greater cause for optimism, partly reflecting improved Sino-British ties. After months of wrangling, Britain and China seem to be narrowing differences on the handover ceremony, a symbolic event but a telling indicator of how Beijing sees the achievements and institutions it inherits.

The statement by China's Premier Li Peng that no objection exists to a "glorious withdrawal" by Britain has yet to translate into breakthrough at working level. But the omens are improving. Mr Hugh Davies, Britain's senior representative to the Sino-British Joint Liaison Group, says he sees the Chinese wanting a way out of deadlock.

Of more concrete concern to many in Hong Kong, particularly in business, are technical questions yet to be resolved, notably in the legal sphere. The change of sovereignty means international conventions, such as the 1958 New York convention on enforcing arbitration awards, will no longer cover legal cases between Hong Kong and China.

"There is no existing arrangement for recognising and enforcing in Hong Kong judgments delivered in China, or vice-versa," says Mr Daniel Fung QC, Hong Kong's Solicitor-General. "The situation is now critical; the issue needs to be resolved urgently." Mr Fung cites a rise in corporate contracts, naming third countries as arbitration centres, and warns of the consequent threat to Hong Kong's position as a legal services centre.

Such issues are of real importance to business, otherwise relatively confident about the handover. "There are thousands of documents to be amended or translated and many agreements to be replaced," one solicitor said. "That is critical to a system based on the rule of law."

A broader issue relates to the formation of Hong Kong's court of final appeal, which will replace the Privy Council in July 1997. "The administration says nothing can be done about the all-important recruitment of judges until there is a chief executive-designate," says Ms Margaret Ng, an independent legislator.

Whether this and the other issues can be resolved is a question which leaves observers divided. Mrs Chan appears largely optimistic. "It is unrealistic to expect you can devise a detailed map that will cover every single twist and turn ahead. But there is a willingness to step up co-operation."

Another official says China is now adopting a more businesslike stance, motivated by awareness that a disorderly handover would undermine its own political and economic interests. But others are more pessimistic. Mrs Emily Lau, an independent legislator, sees risks of "a real mess" and the worry that this will let China impose its own solutions.

# US hurdle for BA-American deal

By Michael Skapinker, Aerospace Correspondent

As negotiators from the UK and the US met in Paris on Monday for preliminary discussions on a new "open skies" agreement and the proposed alliance between British Airways and American Airlines, US airlines were rallying to prevent the BA-American deal from being approved.

An open skies agreement, which would allow US and UK airlines to fly to any airport in the other's country, was not enough, the US carriers said. What the airlines want is guaranteed access to London's Heathrow airport.

Among the US airlines opposing the proposed BA-American link-up in its current form are Trans World Airlines, Continental Airlines and United Airlines. They say the BA-American alliance will be too dominant on the transatlantic routes.

They have received support from airlines in other countries. Mr Richard Branson, chairman of Virgin Atlantic of the UK, is in Washington this week attempting to gain US government support for his opposition to the alliance.

Mr Cheong Choong Kong, chief executive of Singapore Airlines, said last week: "I can understand Richard Branson's apprehension. It means very much tougher competition for other airlines. This is particularly so for airlines from the Far East if, as a consequence, US carriers are allowed to fly beyond London to the Asia-Pacific region."

Mr Maurice Flanagan, managing director of Emirates, the UAE airline, called the setting up of global alliances such as BA and American "a feeding frenzy". He said: "Globalisation is a euphemism for cartels." The BA-American alliance, announced earlier this month, envisages the two carriers sharing revenues from their transatlantic routes and putting both companies' flight codes on all flights. The airlines will account for 60 per cent of flights between the UK and the US.

The UK Office of Fair Trading has declared the alliance a merger, even though there will be no equity exchange. It is considering whether to recommend it be referred to the Monopolies and Mergers Commission. In the US, the alliance will be investigated by the Justice Department, which will advise the Department of Transportation whether the alliance should be given anti-trust immunity.

BA and American say they hope to persuade authorities in both countries that their link-up is in the interests of consumers. But opposition from US carriers is a worrying development for them. Airlines such as TWA have in the past used their political influence to persuade the US to veto new air agreements with the UK.

TWA says the authorities should not consider approving the alliance until other US airlines are permitted to fly to Heathrow. "We volunteer to be first," TWA said. Only American and United can at present fly to Heathrow. TWA has applied for the right to fly three times a day from New York to Heathrow but has already been turned down pending further UK-US negotiations.

Continental says if American wants its alliance with BA it should give up all its UK routes so that these can be allocated to other US airlines. It says this is what USAir did when it formed an alliance with BA in 1993 – although this argument is slightly weakened by the fact that the USAir routes were taken over by BA.

United is the most surprising of the opponents as it has just received anti-trust immunity for its own alliance with Lufthansa of Germany. But Mr Cyril Murphy, United's international affairs vice-president, says BA and American would be too strong on some routes – such as from London to Chicago, United's base.

Instead of looking at overall market shares, Mr Murphy says the regulators need to ensure that competition exists on particular routes. BA and American have 83 per cent of London-Chicago traffic, he says. There is a shortage of slots at both Heathrow and Chicago's O'Hare airport. Simply declaring the skies open will not change that, he says.

# Bolivia to sign free trade pact with Mercosur

By David Pilling in Buenos Aires

Bolivia is to join Chile in signing a free trade deal with the four-nation Mercosur customs union.

President Gonzalo Sanchez de Lozada said yesterday the accord had been agreed. Only annexes, dealing mainly with lists of exceptions, had to be settled, but this would be "straightforward".

Chile yesterday became an associate member of Mercosur – which includes Argentina, Brazil, Paraguay and Uruguay – giving it preferential access to a market of 200m people, but not binding it to Mercosur's external tariff regime.

Sanchez de Lozada: helping Bolivia export goods not drugs

Mr Sanchez de Lozada, in Buenos Aires for a meeting of Mercosur heads of state and business leaders organised by the World Economic Forum, said Bolivia's entry into the customs union was vital to end the country's isolation.

Physical integration was fundamental, he said, providing inland Bolivia with potential access to both Pacific and Atlantic ports, and linking Bolivian gas fields to markets in Brazil. Free trade would help Bolivians, "experts in contraband" to "export value-added goods rather than people and drugs," he said.

Bolivia, according to Mr Sanchez de Lozada, last year imported $600m worth of goods from Brazil, but legally exported only $20m to that country. "That's a slight difference," he said. "Our advantage in this new relationship (with Mercosur) is that we cannot do worse."

Mr Antonio Aranibar Quiroga, Bolivia's foreign minister, said lists of exceptions would cover mainly agricultural products, where tariff reductions would be phased in over 18 years. Mr Aranibar said he was surprised at the attitude of Colombia, which this week criticised Bolivia for concluding a unilateral agreement with Mercosur. Bolivia and Colombia, as well as Peru, Venezuela and Ecuador, are members of the Andean Pact trade grouping.

# IBM to create 1,000 jobs in Ireland

By John Murray Brown in Dublin and James Buxton in Edinburgh

International Business Machines is to create 1,000 jobs by building a new customer support centre in Ireland and expanding its call centre in Scotland.

IBM, the world's largest computer company, says the two investments will provide a pan-European service offering advice and support to customers and business partners throughout western Europe.

Mr Richard Bruton, Ireland's enterprise and employment minister, said the investment further underlined "the credibility of Ireland as a gateway to Europe".

The company said the move reflected the increases anticipated in global user demand as PC sales continue to expand, and the use of the internet grows.

The project, which is supported with grants from the Industrial Development Agency, the Irish government's investment board, will provide the company with a useful source of customer feedback to help benefit the next generation of products.

In just two years Ireland has emerged as a leading location for telemarketing and call centres, accounting for 20-25 per cent of all call centres in Europe.

With its competitive telecommunications rates, a young and skilled workforce, and a 10 per cent corporate tax rate for traded services companies, Ireland has lured the service and back-up arms of 20 large organisations including the computer companies Dell, Digital and Gateway; service companies such as United Parcel Services, American Airlines and Korean Air Lines and the hotel groups Sheraton and Radisson, who run their reservation call centres out of Dublin.

Mr William Burgess of IBM Ireland said the company expected to spend around I£30m a year operating the Irish centre offering a round-the-clock help line in 11 languages to PC users in more than 20 countries.

The customer support centre will be at the IDA's business park in Blanchardstown outside Dublin. The company will take on 200 people within the first year, with the remaining 500 employed within two years.

The Irish site is one of seven around the world. The Scottish investment at Greenock in Renfrewshire will add a further 250 specialist jobs at what was the computer company's first European telephone help centre when it opened last year.

The additional jobs will take the number of employees at IBM in Greenock to more than 3,000.

Mr Bruton said tha Irish investment had been secured in the face of strong competition from Scotland.

"There's no doubt there has been very tight competition with Scotland...which has become a very significant centre for attracting the electronics industry," he said.

But be said: "We have achieved critical mass in (the technology) sector where we now have not only very good education facilities bnt good infrastructure to underpin it, both in telecommunications and s good sub-supply sector."

# Boeing forecasts strong growth in Asia

By Tony Walker in Beijing

Boeing, the US aircraft manufacturer, yesterday said it expected business in Asia to grow strongly in the next 10 years, with deliveries accounting for 40 per cent of total aircraft sales.

Mr Philip Condit, Boeing's president and chief executive, said the company's production cycle in the first quarter of this year had "bottomed" and he expected an improvement.

"We see Asia in general moving to about a 40 per cent share of total aircraft sales in the next 10 years which would make it the single largest market in the world, and China is a significant part of it," he said.

Boeing's board met in Beijing this week to shore up the US company's position in China which is under assault from Airbus.

The European consortium recently clinched a $1.5bn, 33-aircraft deal, dealing a blow to Boeing's dominant position in China.

Mr Condit said the Airbus agreement had not, however, undermined Boeing's world market share which remained "intact". Airbus's success in China was at the expense of McDonnell Douglas.

Both Boeing and Airbus estimate China will need to spend about $100bn on new aircraft in the next 15 years.

China is expected to become the world's third largest aircraft market after the US and Japan, and has invested about $12bn on the purchase or lease of 283 aircraft from 1990 to 1995.

China has had a $1bn-$2bn order pending for 20 new Boeing aircraft since last year, but Beijing has delayed a decision partly, it seems, because of lingering political difficulties with the US over trade and political issues such as Taiwan and human rights.

● Aérospatiale of France yesterday said China had not yet made a decision on a partner for a new 100-seater aircraft. This followed a statement by Mr Condit that Boeing was "no longer" pursuing the feeder jet project with Beijing. The goal of the proposed venture is to produce up to 1,000 100-seat aircraft.

A European consortium, involving Aérospatiale, British Aerospace and Italy's Alenia is believed to be the leading contender among western aircraft manufacturers. Beijing is looking for foreign partners, including Asian participants.

However, Samsung Aerospace announced last week it was pulling out of the project, apparently because of disagreements with Aviation Industries of China (AVIC).



WORLD TRADE NEWS DIGEST

## Banks pioneer Shanghai deal

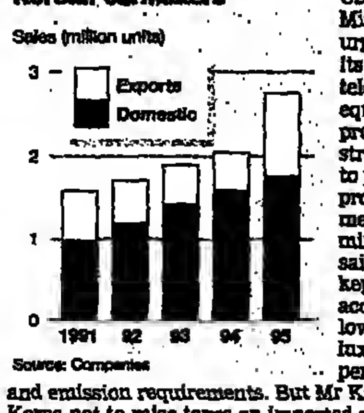
Bankers yesterday completed a pioneering financing package for a $73m Sino-UK joint venture in Shanghai. The deal is one of the first in China which is not underpinned by a foreign exchange guarantee from a financial institution and reflects growing optimism on the pending convertibility of the local currency. The water supply project is a build-operate-transfer joint venture between Thames Water and Bovis, a subsidiary of P&O, and Shanghai Municipal Waterworks Company.

Mr Robin Gibbons, director of corporate and project finance with BZW Asia, which acted as co-ordinator on the deal, said the financing agreement was made possible by the growing perception that the Chinese currency is likely to become increasingly convertible. Previous project financing deals in China have relied on foreign exchange guarantees. About 16 banks have joined the $53.4m 10-year syndicated loan facility, which pays 1.9 per cent above money market deposit rates. BZW Asia's three co-arrangers are Credit Lyonnais, Standard Chartered Bank, Shanghai branch, and Sumitomo Bank. Shanghai will pay for the water even if it is not used. That means the credit risk lies with the relatively wealthy municipality. *Louise Lucas, Hong Kong*

## Kantor plea on S Korea tariffs

**Korean carmakers**

Sales (million units)




Source: Companies

US commerce secretary Mickey Kantor yesterday urged South Korea to open its markets for vehicles, telecommunications equipment and agricultural products. Mr Kantor also stressed the need for Seoul to protect intellectual property rights. In a meeting with trade minister Park Jae-yoon, he said Seoul had generally kept its promises in a car accord last September that lowered import tariffs on luxury vehicles hy up to 41 per cent and eased testing and emission requirements. But Mr Kantor called on South Korea not to raise taxes on imported sports utility vehicles. Mr Park insisted such increases were allowed under the accord. Foreign car sales in South Korea are now less than 1 per cent of the domestic market. US manufacturers are concerned about a major push by South Korean companies to export more vehicles and are demanding South Korea open its doors wider in turn. South Korea's car import tariff is around 8 per cent, against 10 per cent in Europe. But Seoul has leeway to raise the rate as high as 80 per cent, whereas European tariffs are fixed under WTO rules. *Reuter, Seoul*

## EU applies to lend to Vietnam

The European Investment Bank, a European Union bank that funds capital investment projects on a non-profit basis, has approached Hanoi about extending its operations to Vietnam. These would include providing loans of Ecu30m-Ecu40m ($37.5m-$50m) a year for large projects, mainly infrastructure-related.

An EU official said the bank had already received loan applications from European companies seeking funds for projects in Vietnam. However, before the bank could start, it would have to sign a framework agreement with the Vietnamese government. Vietnam would have to provide sovereign guarantees for the Vietnamese risk in any given project, a move Hanoi is unlikely to make without protracted negotiations. *Jeremy Grant, Hanoi*

■ Indonesia's state-owned Garuda airlines yesterday signed a $1.6bn order for the purchase of 23 Boeing aircraft. The aircraft on order include six Boeing 777s, 12 737-300s and five 737-500s. The deal replaces previous Garuda orders for six Boeing 747-400s and nine 737-400s. *Reuter, Jakarta*

■ Bombardier, the Canadian transport equipment group, said its Eurorail unit would build 18 metropolitan two-car train units worth C$88m (US$64.4m) for RET of Rotterdam. Also LIAT, the Caribbean airline had ordered three 50-seater Dash 8-300 aircraft worth C$59m. *Robert Gibbens, Montreal*

■ CAE, the Canadian electronics group, has won a C$101m order for four helicopter flight simulators for the German Army Aviation School for 1999 delivery. CAE also has options for eight more systems worth C$125m. *Robert Gibbens*

■ Telstra New Zealand, a unit of Australia's Telstra Corp, and Telecom New Zealand have signed an interconnect agreement covering national and international toll services, 0800 and value-added services. *Reuter, Wellington*

# Albania takes direct line to European integration

**Kevin Done** on a growing mobile phone network

Albania, the poorest country in Europe, has inaugurated its first mobile telephone network in an attempt to overcome the shortcomings of its limited conventional telecommunications service.

The cellular network, confined initially to the capital Tirana, is being extended to cover many of the cities along the country's western coastal plain.

By early July it should cover an area from Shkodra in the north to Vlora in the south accounting for 50 per cent of the country's 3.3m population.

But the system will be out of reach financially of all but a small minority of Albanians. The 100,000 leks ($1,010) initial fee is almost equivalent to Albania's average annual income (average monthly salary $70-$80), and there will be a monthly fee of 3,500 leks on top of call costs.

The mobile telephone service was rushed into operation during tha first half of the year as a prestige project to bolster the image of the country's ruling Democratic party in the run-up to the general election st the end of tha May.

It was regarded as a symbol of the country's economic growth and its increasing integration into Europe, but such developments hava been overshadowed hy the condoct of the election, which has been condemned for widespread ballot-rigging and manipulation.

The GSM (global system for mobile communication) network has been built by Alcatel of France under contracts worth $7.3m awarded late last year. It opens the way for Albania to be linked with around 100 countries operating GSM mobile phone systems. Negotiations have been started to link 15 countries in Europe by the end of July.

Albania, isolated from the world for 45 years by the repressive Stalinist regime of Enver Hoxha, has the most underdeveloped telecommunications system in Europe with less than 1.5 lines per 100 inhabitants compared with 49 in the UK and 68 in Sweden.

The Albanian government has invested in the cellular network to speed up the development of communications to serve the growing private sector business community.

**System will be out of reach of all but a small minority**

A feasibility study has also been launched into banks using the eystem for data transmission to overcome the absence of conventional computer links with their branch networks.

"Improving the infrastructure and telecommunications is a major factor in developing the whole economy," said Mr Adrian Shehu, chief executive of the state-owned Albanian Mobile Communications (AMC) and telecommunications adviser to the prime minister.

With the support of foreign aid Albania is investing to improve its conventional telecommunications system, but the building of a mobile telephone system "allowed a very quick, very high rate of expansion", said Mr Shehu. "At present communication between many cities is very difficult."

In the first phase AMC is creating capacity for 8,000 subscriber lines, but this could be expanded to as many as 50,000 depending on demand, said Mr Shehu.

AMC has been created as a 100 per cent state-owned company, but Mr Shehn said there were "possibilities for privatisation. I think it will be privatised step by step."

Around $8.5m has been invested in the first phase of the network, 20 per cent of which has come from the state budget and 80 per cent from $7m loan from the etate-owned Albanian Savings Bank.

Mr Shehu said a decision would be takan during the summer on the second phase, which would need a further $15m investment to expand the network by the end of the year to cover 75 per cent of the population. It is planned to take in the main roads to the south and sonth-east of Albania towards tha Greek and Macedonian borders to include towns such as Elbasan, Korca, Gjirokastra and Saranda.

AMC has plans for a third stage in which the cellular network would be extended to the lese populated mountsin regions of north and north-east Albania to the borders with Serbia and Montenegro, but approval remains uncertain.

# Labour leader deplores 'isolationism'

By John Kampfner, Chief Political Correspondent

The opposition Labour party yesterday set out a strategy to raise Britain's international profile by using its unique membership of the Commonwealth, the European Union and the United Nations Security Council.

Launching the party's foreign affairs and defence policy document, Mr Tony Blair, the Labour leader, said growing calls by Conservatives for disengagement from the EU were undermining Britain's power across the world. Mr Blair confirmed that Labour would maintain Britain's independent nuclear deterrent, but described as "awesome" the idea that he would be called upon to press the button.

The document, drawn up by Mr Robin Cook, shadow foreign secretary, pledges to give greater priority to promoting UK trade and to appoint leading figures from business as ambassadors to countries that are key export markets.

It also promises that a Labour government will put human rights and development-tal issues at the forefront of its diplomacy. However, it fails to commit extra resources to reversing the decline over recent years in aid grants to third world countries.

"Under the Conservatives, Britain has lost influence and been increasingly marginalised not only in Europe but also in the other international bodies to which we belong," Mr Blair said as he launched the paper. "They have no proper idea of Britain's place in the world and they are sliding towards isolationism."

Mr Blair said Labour would work from within the EU to promote free trade and to take a "far more vigorous approach" to opening up the single market, extending it to sectors such as energy, telecommunications and biotechnology.

While making clear that as prime minister he would base a decision on whether to join a single currency on "a hard-headed look at the economic practicalities", Mr Blair stressed the party would adopt a positive position on reform of EU institutions. This, he said, included enlargement, reform of the Common Agricultural Policy, greater openness and accountability and action on unemployment.

In an interview with the Financial Times, Mr Cook said Labour would press for an extension of qualified majority voting at the European council following enlargement to ensure that new member states would not be able to block progress. He suggested the problem over giving each member state a commissioner of its own could be solved by appointing deputies to several commissioners.

# Industry minister backs free trade

By Robert Peston, Political Editor

The promotion of competition and free trade are once again the core aims of the Department of Trade and Industry, Mr Ian Lang, its chief minister, will say today.

In a speech at the centenary dinner of the Engineering Employers' Federation, Mr Lang will also indicate the possibility of a government paper later in the year to demonstrate the government's claim to be the "global champion" of bringing down trade barriers.

"We shall be looking to set out in more detail in the autumn our policies for pursuing global free trade and the contribution both trade and foreign policy make to Britain's economic standing in the world," Mr Lang will say.

It is understood that DTI and Foreign Office officials are preparing a series of proposals on liberalising international trade. The paper which is likely to result will establish the government's agenda for the first meeting of the World Trade Organisation, scheduled to take place in Singapore at the end of the year, and set out proposals for the long term.

Mr Lang's speech is intended to summarise his philosophy as trade and industry secretary on his first anniversary in the job. In stressing the importance of competition he is widely seen as striking a very different tone from that of his predecessor, Mr Michael Heseltine, now deputy prime minister. Mr Heseltine gave greater weight to fostering the growth of companies big enough to compete on the world stage.

In Mr Lang's view, mergers "can ... present a threat to a vigorous competitive market". However, he feels that the existing institutional arrangements for regulating and vetting proposed takeovers "work well".

Mr Lang will say his recent decisions to block mergers in the electricity industry demonstrate that he places "great weight on promoting competition". He will pledge that so long as he remains in the DTI post, he will "continue to keep the interests of competition foremost in my mind".

Mr Lang's overall objective for trade and industry policy is to "set enterprise free" with "three clear goals ... free enterprise; free trade; competition as the driving force".

He will also say government should adopt a less visible role in industrial initiatives. It should set a framework, but specific projects, such as the existing Business Links network of advice centres, will increasingly be managed and funded by the private sector.

# Opposition MPs urge cut in farm minister's pay

By James Harding at Westminster

Ministers yesterday rallied to support Mr Douglas Hogg, the agriculture minister, as the House of Commons debated his handling of the beef crisis and a proposal to cut his salary by £1,000 ($1,550).

Mr Tony Baldry, a junior agriculture minister, gave details of how the bulk of the European ban on British beef could be lifted by the end of November as part of his defence of Mr Hogg.

The attack on the embattled agriculture minister took the form of a motion by the Liberal Democrat party to cut his salary – a sore point for the government after pressure on the prime minister from his cabinet colleagues to sack Mr Hogg emerged over the weekend.

Mr Paul Tyler, Liberal Democrat agriculture spokesman, justified the call for a cut in Mr Hogg's pay so that "the long-suffering beef and dairy industry should at least have the satisfaction of knowing that somebody is being held accountable for their undeserved suffering".

Mr Baldry replied to what he called Mr Tyler's "self-seeking, sanctimonious and tawdry little speech" with a paean to his superior minister, who was attending a meeting of European Union agriculture ministers in Luxembourg. Mr Hogg "has remained above personal attacks and modslinging; he has worked flat out for three months to try and resolve this crisis," Mr Baldry said.

As part of the government's strategy to eradicate BSE from the national herd, all cattle born in Britain or imported are to have a compulsory passport from next week.

A computerised system for recording the movement of cattle should be in place by November.

Mr Baldry also said that "all possible steps to step up the rate of slaughtering are being taken despite the limit on available rendering capacity." The government expected to clear the backlog of around 200,000 animals for slaughter by mid-October, he said.

# Dutch reject plea for rendering aid

By Gordon Cramb in Amsterdam

British options for disposing of the country's hundreds of thousands of condemned cattle narrowed yesterday when the Dutch government said it would not permit the shipment of carcases to the Netherlands for rendering and incineration there.

The UK agriculture ministry, facing a large backlog in the slaughter programme aimed at eliminating the "mad cow" disease BSE, has been seeking ways to get round a shortage of domestic capacity for grinding down and destroying the remains. Its officials said this week they had approached Dutch companies which they were hoping would take on some of the work.

However, a law governing the destruction of animals gives the Dutch health ministry power to refuse permission for any such operation, whether or not the European Union ban on exports of British beef is adjusted to allow such a cargo to leave UK shores. "As far as we can see we would not favour it," a health ministry official said in The Hague. "We are trying to get rid of the problem, not import it."

No official approach has yet been made to the Dutch authorities. The Netherlands agriculture ministry is opposed to the idea.

# Engineering lifts manufacturing gloom

By Peter Marsh in London

Mulling over the latest manufacturing statistics, Mr David Shail shakes his head with disbelief. The chief of the UK division of Sandvik, the Swedish engineering company, does not recognise the official picture of a slowdown in manufacturing pushing the sector into recession.

Sales of Sandvik products, mainly specialist tooling and engineering systems, reached £186m ($289.17m) last year, up 29 per cent on 1994. Mr Shail is forecasting further growth to about £220m next year.

"Most of the businesses we are selling to are pretty optimistic, even if the rate of growth may have slowed down a bit [from last year]," said Mr Shail. Sandvik is in the middle of a three-year investment programme, taking it to the end of 1997, totalling nearly £40m. This is some three times up on the previous three years.

Mr Shail's views reflect the perspective of many UK-based engineering companies – which appear to be doing better than manufacturing as a whole. The picture is expected to be confirmed by this week's business trends survey by the Engineering Employers' Federation. Growth for the sector this year is expected to be about 2 per cent. But an EEF official warns that the picture is patchy.

Professor Brian Fynes, a manufacturing expert at University College, Dublin, believes engineering companies may be doing better than counterparts in manufacturing generally because they are more likely to be focused on specific "niches".

Also, many engineering companies are likely to be linked closely to customer businesses in other branches of manufacturing, through contracts involving a sharing of design practices and commitment to higher quality products.

As a result, according to Prof Fynes, engineering companies are in a better position than manufacturers of general commodity products to respond to customers in areas such as reducing defects.

Many engineering businesses have also introduced "teamworking" and "continuous improvement" production techniques which have lifted productivity and improved response times.

Changes in labour practices, accenting job flexibility, often mean a company can respond quickly to the customers' demands, according to Mr Martyn Vaughan, the director of a tractor plant in Basildon, Essex, run by New Holland, a subsidiary of Fiat of Italy.

Last year the plant, one of Europe's biggest tractor factories – employing 1,600 people – made 29,000 machines. The projection for next year is 34,500.

The plant makes its machines in hundreds of variations, depending on customer preferences. Worker flexibility is a key to its success, according to Mr Vaughan.

Total annual sales of UK-based engineering companies are about £160bn – of which nearly half are exported. The sector accounts for about 40 per cent of UK manufacturing output.

Another UK engineering company that believes it has benefited from a "niche" approach is Molins, one of three companies worldwide which make cigarette production equipment.

With UK sales accounting for just 8 per cent of its £285m revenues last year, Mr Peter Barrisson, Molins' chief executive, sees good growth prospects, especially from emerging markets such as China.

Specialist tool operations at Sandvik's Coventry plant are boosting the Swedish company's growth

# Nike's knack is to pick losers for its advertising

By George Parker in London

It is being called "the curse of Nike". The US sportswear company's unfortunate choice of top stars to promote its products is fast becoming a standing joke after a string of disasters spanning the Olympics, the Wimbledon tennis championships and the Euro 96 soccer tournament.

Nike seems unable to pick winners. In fact, the £1m ($1.53m) poster campaign timed to coincide with Euro 96 typifies the company's unerring ability to identify losers and complete non-starters.

The company singled out five footballers to spearhead its Euro 96 advertising blitz, and none has been conspicuous by his success in the tournament.

In fact three have not been conspicuous at all – Eric Cantona and David Ginola did not make it into the French national squad, while Les Ferdinand did not make the cut for England.

Paulo Maldini, the Italian defender, was on a flight home after Italy lost in the qualifying round of the tournament.

The fifth player to suffer the Nike jinx – the Dutch striker Patrick Kinivert – had an even worse time. After attracting fierce criticism for committing a serious drink-driving offence in the Netherlands, he made only fleeting appearances before his team were eliminated in the quarter-finals.

"We don't see it as a mistake," said Mr Peter Bracegirdle, account director at the advertising company, Simons Palmer. "Nike is a company which likes to take a point of view – the world of sport is unpredictable."

If Nike is embarrassed, it is not showing it. Yesterday the company launched a tongue-in-cheek newspaper campaign in advance of today's semi-final between England and Germany, acknowledging the "curse".

Reprinting the earlier Kluivert and Maldini adverts, the script underneath reads: "Nika would like to wish Germany good luck. (That should do it.)"

No sooner had Nika displayed its nous in the world of soccer, than the company embarked on a campaign to coincide with the start of the Wimbledon tennis championships.

With typical bad luck, the company launched a series of television adverts featuring the American tennis star André Agassi on Monday night – only hours after Agassi was knocked out by a rank outsider in the first round.

Nike's curse extends back at least as far as the Barcelona Olympics in 1992, when the company put all its resources into pushing the likes of the sprinter Michael Johnson.

"Michael didn't run quite as fast as we might have liked in the 400 metres," admits Mr Bracegirdle. "He went down with a bout of food poisoning – I think it was the paella."

But once again the company turned its disastrous judgment into a joke. "If you're going to put your foot in it, put your foot in it with a pair of Nikes," ran the advertising message.

# Soccer success gives workers a kick

By Peter Marsh in London

Factories in England can expect a boost to production and quality tomorrow if the nation's soccer players win against Germany tonight – that is the verdict from a squad of production managers assembled by the Financial Times to test out theories about links between sports prowess and output.

The 14-strong panel, one for each England team member and the obligatory three substitutes, was chosen from a range of industries. By a narrow 8-6 scoreline, the production experts said manufacturing performance had been enhanced in England in the past two weeks since the football side began its unexpected advance to the semi-final of the Euro 96 competition.

"There has been a definite feelgood factor in manufacturing," said Mr Terry Smith, who runs a lighting plant with a workforce of 1,000 owned by the TLG lighting group.

"The [England] performance has given people a lift, and a happy workforce is a better workforce," said Mr Jeff Forrest, engineering director of Tempered Spring, which supplies the automotive industry.

More sceptical is Mr Don Lorraine, managing director of KAB Seating, which makes tractor seats. He is having to go to the trouble of installing TV sets at his plant tonight so workers on the evening shift can follow the match. Mr Lorraine thinks "there is no discernible evidence" that a good result will affect production.

Mr Paul Henzi, works director of Hensal Engineering, an engineering subcontractor, says the overall effect on commercial performance is probably negative because of people "talking about football more and doing less work".

The Euro 96 competition has led to shows of one-upmanship at some plants run by non-UK companies, for instance at the headlamp factory run by Magneti Marelli of Italy – whose national side was knocked out in the Euro 96 qualifying rounds.

"We saw a bit of Mickey-taking [at the expense of Italian colleagues]," said Mr Fred Annis, plant manager at the 800-strong factory. He thinks the "jubilance" of his workforce at England's successes will have a positive impact on production.

MPs yesterday attacked the "jingo journalism" and "anti-German nonsense" in some British newspapers in the run-up to tonight's Euro 96 soccer semi-final between England and Germany at the Wembley stadium.

Now the MPs have tabled a House of Commons motion deploring the "nonsense" in the press. They contrast "the hooligan atmosphere" of press comment recently with the sporting enthusiasm of the fans who have "set a much better example of English fair play".

## UK NEWS DIGEST

# Security of top landmarks to be privatised

A private sector security company could soon be protecting many of London's most sensitive landmarks – including the Home Office, the Treasury, St James's Palace and the Tower Of London – under plans unveiled by the government last night. In a move that triggered immediate controversy at Westminster, ministers announced plans to privatise the government's Custody Service, which provides manned protection for these and many other official buildings, by the beginning of next year.

The service, which has been protecting all of the capital's official buildings for more than a century, is the latest in a long line of prominent government bodies to be put up for sale. It has 700 staff and an annual turnover of around £14m ($21.42m).

The Cabinet Office later indicated that the only buildings certain to retain protection by government security staff would be the Ministry of Defence and the MI5 and MI6 security services. The opposition Labour party and trade unions instantly condemned the announcement. Mr Jack Dromey, national secretary of the TGWU public service union, said the privatisation plans were "absurd" following the ending of the IRA's ceasefire. "It would be madness to reduce the level of security at buildings like these," he said.

*James Blitz, Political Correspondent*

## Law change heralds divorce rush

Worried husbands are rushing to start divorce proceedings against their wives in an attempt to beat the introduction next week of tougher regulations on the treatment of pensions on divorce. After July 1, courts will be required to take pension funds into account in deciding divorce settlements and will be able to force part of a pension to be paid to a former wife or husband.

The most likely losers from the new rules will be husbands who have built up large pension funds and who are divorcing wives with little or no pension arrangements. Divorce proceedings started before the end of this week are unaffected by the new rules. Mr Richard Sax, a former chairman of the Solicitors' Family Law Association, said he had seen about 50 per cent more divorce petitions than usual in recent weeks.

While men appeared keen to rush through divorces, women were holding back. Mr Sax said that he was advising women who wished to divorce to wait until after July.

The treatment of pensions in divorce has been a fiercely contested political issue over the past two years. The rules due to come into effect next month were put forward by the government as part of last year's Pensions Act.

The UK has the highest divorce rate in Europe, with about 3 in every thousand divorcing each year, compared to a rate of under 2 per thousand in France and Germany and a rate of just 0.5 per thousand in Italy.

*Roger Taylor, London*

## Minimum wage plans strengthen

The opposition Labour party is likely to put its plans for a minimum wage at the centre of its legislative programme for its first year in office. Senior party officials said yesterday recent soundings from employers and financial institutions had become considerably less hostile to the idea. Attention was now focused on the practicalities rather than the principle, they said.

Part of the change of heart has followed signals from Labour that companies who give teenage employees a day of training a week would be exempt from a minimum wage. It is believed that such a concession would be a necessary trade-off to encourage employers to take part in training schemes for the under-25s.

*John Kampfner, Westminster*

## British Gas egm proposed

Leading institutional shareholders are considering calling an extraordinary general meeting at British Gas as a protest against the pipeline charges being proposed by Ofgas, the industry regulator. The egm would enable investors to change British Gas's own rules to prevent its directors from approving any investment which yields a return below, or the same, as that allowed by Ofgas.

Investors are furious at the tough pricing formula put forward by Ms Clare Spottiswoode, the gas industry regulator, for Transco, the British Gas pipeline division. Institutional investors argue that the proposed price formula would mean that British Gas became a high risk equity. "What they want to do is rape the shareholder for the customer," another shareholder said.

*William Lewis and Robert Corzine, London*

## Environmental concerns backed

The House of Commons' environment committee yesterday urged the British government to support the European Commission's controversial proposals to amend free trade rules to prevent them from undermining global environmental accords. It also backed thorny demands by environmentalists to be admitted as observers to negotiations of the World Trade Organisation, the successor to Gatt.

The Commission wants WTO ministers meeting in Singapore in December to specify conditions under which environmentally inspired trade restrictions could be exempt from international free trade rules. The commission is inspired by fears that multilateral agreements to protect the environment, such as the 1987 Montreal Protocol to phase out ozone-destroying CFCs, could be found to breach international free trade rules. Some member states are opposed by countries which fear their exports to the west could be restricted on environmental grounds.

*Leyla Boulton, Environment Correspondent*

## Correction: Mr Ron Baker

We reported yesterday that Mr Ron Baker, formerly head of the financial products group at Barings, has been banned by the Securities and Futures Authority from working in the City of London for three years, and is appealing against that ban.

In fact, the SFA has made charges against Mr Baker after an investigation, and has suggested a registration ban of three years if those charges are found to be valid. He is contesting the charges, and an SFA tribunal has yet to hear the case.

# Mobile phone coup boosts 'Cambridge phenomenon'

By Alan Cane in London

The Technology Partnership, which this week announced worldwide acceptance for its proprietary mobile phone technology, is one of a group of innovative companies in eastern England collectively responsible for the "Cambridge phenomenon".

Its contribution to the remarkable growth of high technology entrepreneurial activity in the East Anglia region began in 1988, when 24 engineers and managers led by Dr Gerald Avison agreed to form a contract research partnership. Many of them had previously worked for PA Technology, one of the first "Cambridge phenomenon" companies and a hotbed of wireless expertise. Overall, the phenomenon represents a period stretching back three decades in which a surprising concentration of high-tech companies have been spawned in the Cambridge area.

Today, the Technology Partnership is 300-strong and growing rapidly. Revenue last year was £25m ($38.25m) and it expects to turn over between £26m and £30m this year. Its shareholders are CINVen (13 per cent), 3i (9 per cent), Vision Systems (8 per cent) and its employees (70 per cent). The company's latest design breakthrough is expected to pave the way for smaller, cheaper and more powerful mobile phones.

The Technology Partnership still derives much of its funding from project work. It took an early decision to invest its earnings in a small number of areas where it believed it had special skills and where it would eventually license its technology. It now ploughs back between 15 per cent and 20 per cent of turnover into developing technologies.

Wireless technology is one of these areas and automated manufacture of pharmaceuticals another. It is becoming recognised for Wavedriver – a joint venture with PowerGen, the electricity generator – which will lead to electrically powered buses guided by signals from geostationary satellites.

The group's involvement in mobile radio began in 1989 through the development of analogue cellular phones for Ericsson of Sweden, now the world leader in cellular systems.

It continued with a multimillion pound wireless project in the Pacific Rim in conjunction with British Aerospace. This experience later helped secure the licence leading to the launch of Orange Communications, the UK cellular operator in which BAe has a minority stake.

The group's involvement in GSM, the European digital mobile standard, goes back to 1990 but the key event was the establishment in 1993 of a long-term collaborative agreement with Analog Devices of Boston, a leading US semiconductor designer and manufacturer. The two companies work together on the design of silicon chips for mobile handsets. The chips are manufactured by the US company.

Dr Tony Milbourn, computers and communications division manager, explained that the association with Analog Devices, a world-class company, gives the Partnership a recognition that a small Cambridge company would find hard to achieve on its own. It had been instrumental in opening the door to a number of customers, including large multinational companies in the Asia Pacific region.

Official approval of the Partnership's GSM technology means it is acknowledged as world class in competition with groups such as Nokia of Finland, Motorola of the US and Philips of The Netherlands. How does a small company achieve such a result? Dr Milbourn says: "By doing nothing else. By putting all our eggs in one basket and focusing single-mindedly on GSM technology." As a result, the group is able to offer for licence all the components for GSM cellular handsets: the chips and the software, as well as technical consulting, training and support.

Tony Milbourn: "Association with US company aided global recognition"

## BUSINESS AND THE ENVIRONMENT

A European joint initiative to cut vehicle pollution has split over fears about costs, writes **Lucy Plaskett**

# Airing the differences

It was hailed by Brussels as a new, non-confrontational way to frame environmental legislation – the European Commission, vehicle manufacturers and the oil industry would work together to tackle road transport's contribution to air pollution.

An unprecedented three-year collaboration known as the "Auto Oil" programme led to the commission's adoption last week of proposed legislation for cleaner fuels and tighter curbs on vehicle emissions.

But there was disagreement even before the ink was dry on the proposals – presented yesterday in Luxembourg to EU environment ministers by Ritt Bjerregaard, environment commissioner. During the past months, relations between the three sides have deteriorated as it became clear that the car industry would have to foot most of the bill.

The commission instigated the Auto Oil programme in 1993, when it became clear that future air quality targets being considered by the World Health Organisation would require drastic cuts in emissions.

Road transport is a leading source of pollutants such as carbon monoxide (CO), nitrogen oxide (NOx), benzene and ozone, which contribute to smog in cities and have an adverse effect on health.

The idea was for the commission and the two industries to work together on the most cost-effective approach for tackling this pollution. The commission would then devise standards for 2000, to meet the new air quality targets by 2010.

By working together in this way, EU officials hoped to avoid the political infighting and furious industry lobbying that occurred when new fuel and vehicle specifications were introduced in the US under the 1990 Clean Air Act.

The car and oil industries, delighted at the chance to influence future legislation, invested Ecu10m (£8m) in a joint research project, the European Programme on Emissions, Fuels and Engine Technologies (EPEFE).

At the same time, commission officials assessed the scale of the pollution problem by studying the air quality of seven European cities – Athens, Cologne, The Hague, London, Lyons, Madrid and Milan.

This research threw up two important results: first, that while existing legislation would bring levels of CO and benzene below the target limits by 2010, the real problem was how to deal with NOx, particulates – sooty particles largely caused by diesel exhausts – and ozone. Second, the studies appeared to show it was possible to have a greater impact on emissions by varying vehicle technology than by improving fuel.

The recently-adopted legislation reflects these results. But devising it prompted conflict within the commission: the environment directorate advocated stricter standards, while the energy and industry directorates opposed them because of concerns about the effect on oil refiners and carmakers.

The package consists initially of two measures – a proposal to cut emissions from cars, and another to improve the quality of petrol and diesel fuels. Further initiatives to limit emissions from vans and heavy-duty vehicles will follow next year, along with tougher inspection and maintenance tests.

The commission estimates the total cost of the package will be Ecu5.5bn a year for the next 15 years, with an annual Ecu4.1bn falling on vehicle manufacturers.

Exhaust emissions of CO, hydrocarbons, NOx and particulates must be cut by 20 to 40 per cent from 2000. Complying with the legislation is set to cost car producers Ecu2.4bn a year, and van producers and heavy-duty vehicles manufacturers Ecu316m and Ecu675m a year respectively.

Car and van producers will also share an annual cost of Ecu706m to fit on-board diagnostics – equipment that monitors the performance of catalytic converters.

By contrast, the cost to the oil-refining industry will be just Ecu766m. Refiners will have to cut sulphur in diesel and petrol to 350 parts per million (ppm) and 200ppm respectively.

As well as cutting other pollutants, refiners will also have to phase out leaded petrol by 2000, with a possible three-year extension for southern member states, such as Spain and Portugal.

The commission believes that the actual cost to the consumer of the whole package will be small, with the changes to the car putting between Ecu200 and Ecu520 on to the cost of each vehicle, and the fuel improvements adding, on average, a minimal Ecu1.7 to Ecu2.3 to a motorist's annual fuel bill.

But the cost to both industries will be significantly increased by a proposed second round of emission cuts to apply from 2005. Under this "second step", vehicle emissions will have to be reduced by 50 to 70 per cent from present levels.

Fuels will also have to be improved, with further cuts in sulphur, to enable new vehicle technologies to work effectively. While there are plans to consult industry again before bringing out these new standards by December 1998, the commission already estimates the second step will cost vehicle manufacturers a further Ecu2.7bn a year, and oil refiners an extra Ecu2.25bn.

After three years of collaboration, car producers argue they have been unfairly burdened with most of the clean-up costs, and ACEA, the European vehicle manufacturers' association, is calling for "balanced contributions" from both industries.

It says cleaner fuels would have an immediate impact on emissions, while changes to vehicle technology would take years to permeate the vehicle fleet.

But the oil industry, which supports the measures, counters that they are in line with the Auto Oil conclusions. "The car industry cannot deny that what the commission has proposed is in line with the study," says Europia, the European oil industry association.

Both industries, however, are united in their opposition to tighter limits from 2005 without further rigorous cost-benefit analysis. Car producers believe fiscal incentives would distort the EU internal market, and increase costs by requiring manufacturers to make several versions of the same vehicle.

Meanwhile, the oil industry resists the idea that new vehicle technologies will need cleaner fuels. The proposals have also drawn fire from environmentalists, who say fuel and vehicle standards are too lax.

Both industries will now lobby the European parliament, where MEPs are able to demand changes to the new laws. But any hope of relaxing the regulations will be tempered by the knowledge that parliamentarians have tended to tighten, not ease, anti-pollution laws.

*Lucy Plaskett is editor of the FT newsletter EC Energy Monthly.*

**New targets in drive to cut emissions**

| Petrol passenger cars (grams per km) | 2000 | 2005 |
|---|---|---|
| Carbon monoxide | 2.30 | 1.00 |
| Hydrocarbons | 0.20 | 0.10 |
| Nitrogen oxides | 0.15 | 0.08 |
| **Diesel passenger cars (grams per km)** | **2000** | **2005** |
| Carbon monoxide | 0.64 | 0.50 |
| Hydrocarbons & nitrogen oxides | 0.56 | 0.30 |
| Nitrogen oxides | 0.50 | 0.25 |
| Particulates | 0.05 | 0.025 |

Source: European Commission

Cutting exhaust emissions will prove expensive, reports **John Griffiths**

# Carmakers pay the price of progress

Jacques Calvet is not amused. Nor are the heads of Europe's other leading vehicle producers which, along with Calvet's Peugeot Group, make up the European Automobile Manufacturers Association.

As the association's president, Calvet points out that vehicle makers have borne since 1970 a large financial burden in cutting emissions of carbon monoxide, hydrocarbons and oxides of nitrogen from car exhausts by 90 per cent. In the same period, truck diesel emissions of NOx have fallen by 65 per cent and of sooty particulates by 85 per cent.

Yet now the car industry must spend Ecu4.1bn a year for the next 15 years cutting current exhaust emissions by a further 20 to 40 per cent from 2000, with additional costs for the second step to apply from 2005.

On Europe's average annual production rate of about 13m units, the industry argues, that works out at a cost of more than Ecu300 per car – to cut its emissions by only a further 3 to 5 per cent compared with the pre-catalyst era.

Vehicle makers have a clear self-interest in urging other measures that would rapidly improve air quality and would not cost the industry itself money – notably "cleaner" fuel and scrapping incentives to remove from the streets the millions of non-catalyst cars that produce most of Europe's exhaust pollution. None the less the manufacturers' conviction that more stress should have been placed on this aspect of control is deeply felt. Yet, provided the EU's Council of Ministers puts its final stamp of approval on the commission's proposals, the industry will grumble loudly and carry on developing technologies that will allow compliance.

However, it will still attempt to have the rules rewritten to excise at least one proposal which it regards as an absurdity – for an on-board exhaust gases monitoring and display system showing on the dashboard that the car's exhaust gases are complying with the standards while in use. Such a system would be totally redundant because the function is implicit in the car's electronic engine and catalytic converter management systems, the industry asserts.

There is at least a chance that such arguments might get listened to as the industry develops its various emissions-reducing technologies, for this year it has already won one important battle.

A few months ago the California Air Resources Board (Carb) rolled back a mandate which had required that 2 per cent of leading carmakers' sales in the state should be of zero-emissions – essentially battery-powered – vehicles from 1998, rising to 10 per cent by early next century. The technology is not adequately advanced, in terms of vehicle range, cost or performance – and Carb accepted that the industry genuinely could not achieve the target.

Nor is the industry looking to any "breakthrough" technologies to get it off the legislative book in Europe. It does not expect electric vehicles to form any significant part of Europe's car population until well into the next century; nor is the hydrogen fuel cell – recently demonstrated in a multipurpose vehicle by Mercedes-Benz – expected to make enough progress towards commercialisation to affect the commission's proposals for reducing petrol and diesel emissions.

Instead, the industry will now begin a greater concentration on refining both petrol and diesel engine technology to whittle away progressively at emissions of each pollutant.

Much stress will be placed on the half-minute or so start-up phase of journeys, when the catalyst is too cold to work and when, as a result, most pollutants are pumped into city streets.

However, the new standards will also require reduced emissions levels throughout the car's operating cycle. Some of this can be achieved through improved catalytic converter design.

The main driver, though, is expected to be the pursuit of eliminating pollution at source – partly through achieving the most complete combustion possible, and partly by further reductions in fuel consumption which, by definition, means less fuel being burned.

# Saving for the earth

Hot air or sound business sense? That is one question investors might well ask when inquiring about a new type of bank account being offered to UK savers to help combat global warming.

The Earth Saver Account was launched last week by Dutch-based Triodos Bank, which aims to use proceeds raised "primarily to finance renewable energy projects and energy conservation projects in the UK".

In a new departure, Friends of the Earth, the UK environmentalist pressure group, is helping to market the scheme by urging savers to switch their savings into the account. Friends of the Earth has invested not only its prestige but also £200,000 ($306,000) in the new financial instrument.

Renewable energy and energy conservation are seen as important tools for keeping in check greenhouse gases, emitted by the burning of fossil fuels, which are believed to contribute to climate change. Governments meet in Geneva next month and Japan next year to agree targets for reducing such emissions in the next century.

Triodos is promising to pay Earth Saver Account holders gross interest rates of up to 5 per cent per annum. Glen Saunders, managing director of the bank's UK office in Bristol, says the rate of return on its existing loans to renewable energy projects averages about 8 per cent.

To green investors concerned about choosing a safe investment, Saunders says depositors would be protected by the Netherlands' scheme to protect savers in the event of the bank failing. Triodos is allowed to operate in the UK under European Union legislation enabling banks to set up shop anywhere in the EU.

Since the plan was unveiled last week, Triodos has had a number of inquiries and hopes public interest will increase even more after it publishes advertisements in two daily newspapers today.

**Leyla Boulton**

# ARTS

Television/**Christopher Dunkley**

## Don't throw away the crown jewels

The decline and even expiry of public service broadcasting is being predicted once again. Those set upon changing the BBC, perhaps beyond recognition (to the incredulity of foreign broadcasters who see the British tipping their crown jewels into the dustbin) argue that this is a necessity if the BBC is to survive the predicted competitive challenge of digital broadcasting. Programmes will become cheaper, we are told, *thanks to this digital revolution*. Presumably cars will become cheaper if only we build more roads. No one has yet explained how digital transmission will cut a penny off programme costs, nor how much will be saved under the new style McKinsey BBC.

But those, it seems, are petty details. What is supposed to be *obvious is that the old era of broadcasting* by huge public service bodies, transmitting from high masts, is coming to an end. Wavelength *scarcity will be replaced* by channel abundance, and, whatever the niggling details, the new technologies will enable competitors to take audiences from sclerotic bodies such as the BBC unless they rejuvenate themselves.

This all sounds pretty familiar, of course. *Cable* and satellite used to be the "new" technologies, and *they* were going to take away the old broadcasters' audiences. Actually, *after all their years in business*, there is still not a single UK satellite or cable network which manages to get even a tenth of the audience attracted by ITV or BBC1. *All of them put together* (there are 48 available in north-west London) take only 10 per cent of the audience whils the four terrestrial "dinosaurs" still hold 90 per cent. But if 48 can takes 10 per cent, surely 480 will take 100 *per cent*? The arithmetic does not work quite like that. All that has been proved with the new technologies so far is *that if you capture sports rights* by pushing fees sky high and then charge vastly increased prices to the viewers, you can make a fortune.

But so what? Is it not inevitable that public service broadcasting off high masts will indeed come to an end one way or another, and when it does shall we really miss it? Evidence from the 48th Prix Italia broadcasting festival in Naples suggests that we shall. True, this is one of the great bastions of the public service ethos, with high ideals such as "improvement in the quality of radio and television programmes" (note the order of the two media) "to foster co-operation between persons engaged in creative radio and television broadcasting, and to stimulate the study and discussion of the cultural and creative problems raised by these two forms of expression".

Those may sound like Reithian sentiments, yet it was not a BBC mandarin who made an impassioned defence of this festival on Sunday night, praising the role it has played in raising programme standards, apologising for the slowness of the British in coming to its defence when the festival's survival seemed threatened a couple of years ago, and celebrating its new found strength today under secretary-general Paolo Battistuzzi – it was Sir George Russell, retiring chairman of the ITCA, the body which controls British commercial broadcasting.

*Commercial* broadcasters are not excluded from the Prix Italia, but if you spend every day during the two weeks of this event in the observers' rooms and the on-demand cubicles, looking through scores of programmes from all over the world in all three prize categories – drama, documentary, and arts – you cannot miss the fact that the most impressive and demanding work is, as so often, coming from public service organisations, or (as in the case of the UK) from commercial broadcasters forced *to compete* fiercely with public services.

The American documentaries provide a good example. There is nothing wrong with the entry from CBS, one of America's big three commercial networks. This is an item from the old and often excellent current affairs magazine, *60 Minutes*, which endeavours to explain the significance of La Scala, Riccardo Muti, and the new *Walküre* to – presumably – an audience which has never heard of any of them. Given that it lasts just 16 minutes it does a remarkable job, and if you regard populism as television's primary concern then this is an excellent piece of work.

But *Troublesome Creek: A Midwestern* from America's tiny Public Broadcasting Service is surely better, even though it would be greatly improved by having half an hour cut out of its 88 minutes. This is a passionately felt and lyrically conveyed story of the troubles of the Jordans, an Iowa farming family, fighting desperately against America's farm crisis to stay on the land and avoid bankruptcy. Told in voice-over in the first person singular by Jeanne Jordan, whose husband shot the film, it is hard to imagine this being made by anything other than a public service broadcaster.

The greatest contrast during this event is between the material you see all day on the screens in the Maschio Angioino Castle where the festival is being held and the programmes on the television screen in your hotel bedroom. Thanks largely, though not entirely, to Silvio Berlusconi, media magnate, politician, and, until not so long ago, Italian premier, Italy has moved faster than Britain towards a broadcasting universe ruled entirely by market forces.

The result is that while you see little but costume dramas, political documentaries, ballet, opera and orchestral music inside the castle, what you see in your hotel room is the familiar eye-glazing mixture of *shampoo* commercials, American cartoons and gormless game shows. It is difficult not to admire the Italians and RAI, their equivalent of the BBC, for somehow sustaining the Prix Italia as a showcase (yes, and talking house) for excellence. But it is also difficult not to be saddened by their seeming inability to sustain a higher quality in their own national output.

Will British broadcasters be able to resist ominously similar forces? Perhaps they will. Maybe the Birtian revolution will, as we are assured, allow BBC programme makers to exploit market forces instead of being exploited by them. This year the British entries still sustain a remarkably high standard. ITV has entered Episode 1 of its tough yet entertaining drama serial about Bradford prostitutes, *Band Of Gold*. Channel 4's documentary is *Return To The Dying Rooms*, a harrowing account of brutality in Chinese state orphanages. And in the arts category, ITV's entry is the opening episode of *The Beatles Anthology*.

These have all been commercially produced, but the question must arise whether such impressive material would continue to emerge from British commercial broadcasters if ever the BBC ceased to occupy its position as public service broadcaster number one. Over the years the BBC has not only maintained high standards itself – it has kept the others good. Its own entries this year are at least as admirable, and possibly more so. Its documentary about Russian politics, *Tripping With Zhirinovsky*, is not only technically good but horrifyingly funny. And its single drama, *Life After Life*, about an IRA killer rejected by his own community, must stand a pretty good chance of winning the drama prize.

The great problem is whether this stream of high quality television can be sustained under a radically altered BBC. What seems certain is that if this sort of public service broadcasting is allowed to wither and die, we shall never be able to resurrect it.

Opera/**Andrew Clark**

## Giovanna d'Arco

In the Royal Opera's Verdi festival, *Giovanna d'Arco* holds a distinguished place. It has never previously been staged at Covent Garden, and unlike *Don Carlos*, the production does not come courtesy of another house. You would have to travel far, and wait patiently, to hear *Giovanna d'Arco* elsewhere, and you would be lucky to find a cast as balanced as this.

So Monday's performance went a long way towards making good the festival idea. It was conducted with tight, athletic vigour by Daniele Gatti, and sung with appropriate elegance. The baroque opulence of Philip Prowse's setting will not please everyone, but he deserves credit for creating a strong theatrical platform for his singers.

And that is just what *Giovanna d'Arco* needs. Written in the full urgency of Verdi's galley years, after *Nabucco* and *I due Foscari* but before *Attila*, it encapsulates the best and worst of his output in the 1840s: melodic profusion, structural experimentation and elemental grandeur, compromised by cardboard characters, a ropy plot and a certain amount of falling-back on well-worn formulae.

Solera's libretto is a concoction of love, patriotism and religion, with the familiar Verdian father-daughter theme thrown in for good measure. This is neither the historical Joan nor Schiller's: she is a purely operatic creation, tailored for a prima donna who knows more about delicate *fioriture* than about heroism.

With such diverse ingredients, *Giovanna* seethes with abrupt contrasts, and the Royal Opera has sensibly chosen not to iron them out. Gatti allows virtually no stops for applause, and by combining the prologue and first two acts in a single 90-minute span, the production builds a good head of steam.

Just as Verdi and Solera tailored the story to their own theatrical conventions, so does Prowse. He paints it in bold emblematic colours, blurring the time-frame to embrace a vaguely Napoleonic milieu for the French, and 20th century berets and flak-jackets for the English.

But national enmities barely come into it. Prowse prefers to see *Giovanna* as a parable of innocence and purity sacrificed on the altar of war. With typical designer-flair, he finds a succession of atmospheric images to frame and comment upon each scene: a hollow, blood-spattered monument at curtain-up; a pastoral landscape to echo Giovanna's virginal spirit; and a tinselly, flag-waving victory procession, bringing out a *Boccanegra*-like streak of irony in Verdi's choral writing.

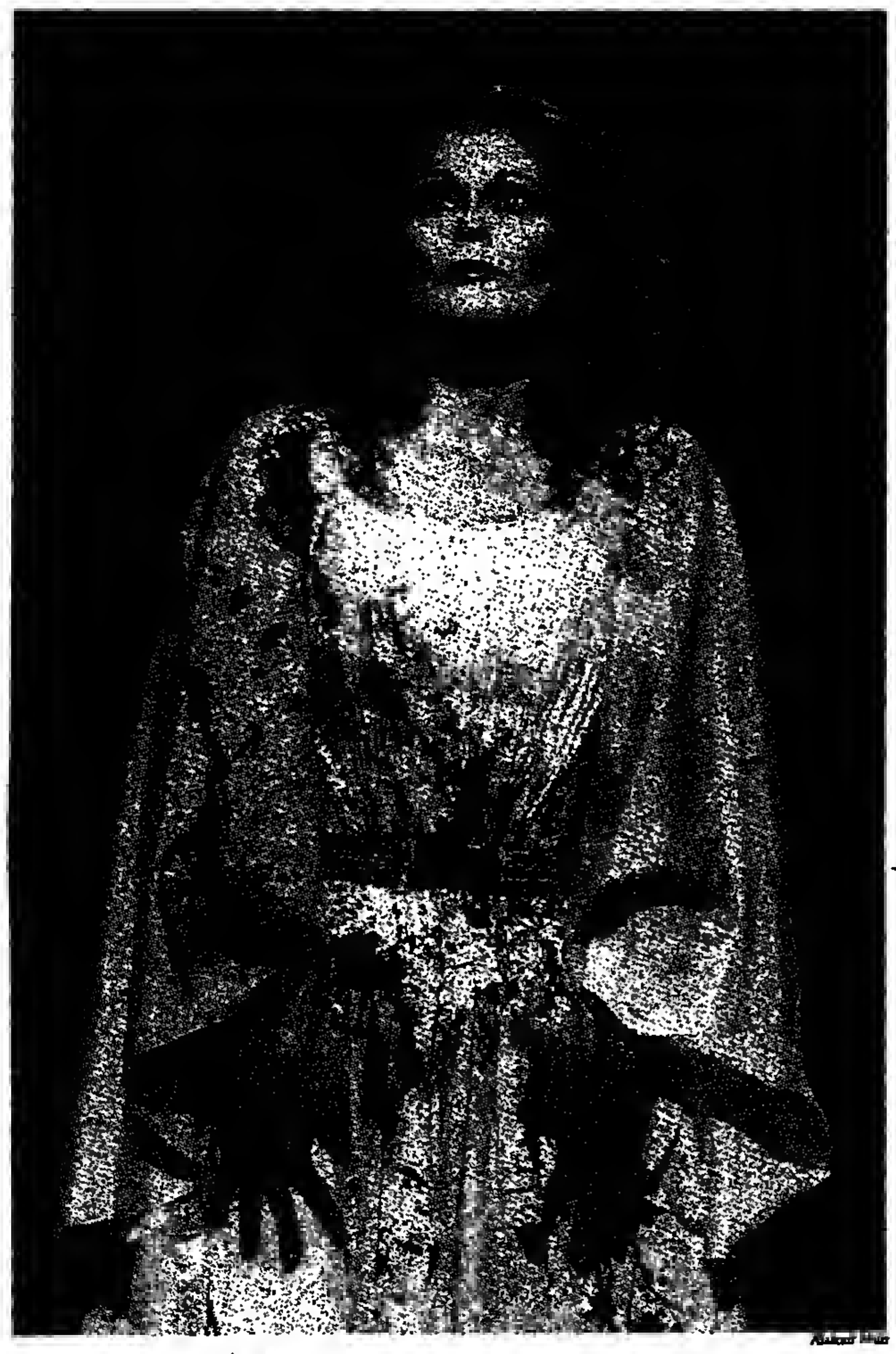
The stylised ambience of the coronation scene would have been most impressive of all, had not Prowse resorted to the cliché of dark spectacles for the church leaders. Gerry Jenkinson's lighting is a work of art in itself.

Prowse also knows when to leave well alone. The unseen spirits' chorus, looming through the stage void, is eerily effective, and the choreography of each tableau has been designed to give maximum purchase to the music.

In the title role, June Anderson is true to the softness of Verdi's Joan, but lacks any compensating trace of human credibility. Permanently dressed in a blood-spattered white dress, she goes too far in the direction of diva-caricature – especially in her death scene, redolent of *Lucia* – and one would have liked to hear a *hint of steel* in the voice.

Dennis O'Neill, looking more and more like a mini-Pavarotti, gives another reliable performance, proving an able match for Anderson in their intricate Act 1 duet. Vladimir Chernov excels as Giacomo: noble in timbre, crusty in appearance, he makes the most of a part that sounds like an early forerunner of Rigoletto. Gatti seems very much in control, drawing imaginative responses from his wind players and making the Act 2 finale sound like one of Verdi's mature choral tableaux.

No production will ever make entirely coherent sense of *Giovanna d'Arco*. But at the end of Monday's performance, we were left dwelling on its protean sweep rather than its primitive impulse. That is a measure of the Royal Opera's achievement.



June Anderson in the title role in Philip Prowse's baroque production

Opera/**David Murray**

## Henze's 'Prince of Homburg'

The composer Hans Werner Henze turns 70 on July 1, and by way of a birthday tribute the English National Opera has mounted *The Prince of Homburg* – his third full-scale opera, composed 35 years ago – in Nikolaus Lehnhoff's Munich production from 1992. Eminently worth doing; but Lehnhoff's staging was designed originally not for the big Bavarian State Opera house, which is comparable to the ENO's Coliseum, but for the tiny Cuvilliés Theatre.

In Gottfried Pilz's stark Munich set, basically a council-chamber with varied lighting, *The Prince of Homburg* must have come across in the Cuvilliés-Theater as a strongly argued ethical debate, with almost every word audible. The dreamy Prince, called rudely into military service by a small 1675 war against the Swedes, disobeys orders in a fit of enraptured distraction and commands a premature attack. Though the battle is won, his rash action has incurred losses; to his horror, the Elector of Brandenburg – his prospective uncle-in-law – demands the death penalty.

Henze and Ingeborg Bachmann drew their libretto from Heinrich von Kleist's classic play, but they emphasised the Prince's dreamy innocence as a virtue in itself. Henze has long been a gentle, romantic revolutionary, and they turned Kleist's hard-nosed conclusion – the Elector at last melts, only because the Prince admits that the original sentence was not "unjust" – into a paean to well-meaning, oddball dissidence.

As we see it at the ENO, the central conflict is excessively black-and-white and therefore somewhat toothless, perhaps because we miss so many of the words when the singers are anywhere but right up at the footlights. The Prince dreams on (never so vividly as at his first appearance, floating amid luminous blue ether), while concerned, sensible people scramble to save his bacon.

At the time, Henze was separating himself from serialist music, and also from Germany, in favour of neo-romantic tonality, Italy and the sun. Therefore he chose pointedly to assign austere serial music to the duty-bound Prussians, while lavishing wistful, wheedling strains upon the Prince and his beloved Princess Natalie (and indulging his new-found enthusiasm for Stravinsky, too, who was still anathema to the serialists).

If the scheme is obvious, and too plainly schematic, at least it makes room for a whole series of Henze's characteristic formal inventions. Peter Coleman-Wright sings an upstanding baritone Prince, sounding much less dreamy than energetic. The Count, his friend and protector, is the excellent Christopher Ventris, and there are staunch performances by Susan Bullock and Susan Bickley as Natalie and her aunt the Electress.

William Cochrane's formidable Elector shows him in much better form than in *Die tote Stadt* last November. Elgar Howarth conducts with a sure, knowledgeable hand. All in all, a worthy event, and interesting; but I fancy Henze intended to wring our withers over the Prince's plight more than this score manages to do.

Further performances tonight, June 28, July 1 and 5.

Recital

## Noble but gloomy

Snatching an evening between his Covent Garden appearances in *Don Carlos*, José Van Dam gave a solo recital at the Wigmore on Thursday – his first ever in London. Why has nobody proposed it to him before? His distinguished operatic career goes back some 35 years, but he is also a searching interpreter of *Lieder* and *mélodies* too.

Anyhow, for this long-delayed London concert the hall was packed. There is no bass-baritone more civilised and *soigné* than Van Dam. The voice is still superbly cultivated, perhaps a bit thinner at the top now. Though in opera he is a fine actor, on the recital platform he has no side: he comes modestly on to project his songs as lucidly and effectively as he can, anxious not to let himself get in the way.

In the event, it was a great relief when he struck Poulenc's cheerfully indecent *Chansons gaillardes* at the end of his programme, and allowed himself a broad, lubricious glint. For what went before had been dauntingly sombre: Wolf's black last songs, the *Michelangelo-Lieder*, and Brahms's mostly melancholy op. 32, followed after the interval by expiring Duparc.

The Duparc songs might have expired less protractedly, and the Wolf and Brahms displayed more muscular variety, had not two familiar rules been in effect. One is that almost any bass will *emit* slow songs as slowly and sonorously as he can, unless his pianist moves him firmly along. The other is that a young pianist, however "equal" a partner he may be – and Van Dam shared the music generously with Maciej Pikulski, who was no shrinking violet but a creative accompanist – is not going to crowd a famous artist twice his age.

The result here was that Van Dam was nobly penetrating with Wolf's (and Michelangelo's) grievous world-weariness, and gravely sympathetic with Brahms's vignettes of thwarted love, and Pikulski supplied alert commentary and support; but often in slow motion, almost becalmed.

Expression crippled pace: a net loss, though Van Dam's diction was almost painfully eloquent. Still, Ibert's deft *Don Quixote* songs made amends later, along with the sly Poulenc set, and we went home in the glow of having heard a mature artist at his best.

**D.M.**

# INTERNATIONAL ARTS GUIDE

## AMSTERDAM

EXHIBITION
**Stedelijk Museum**
Tel: 31-20-5732911
● A Hundred Photographs: exhibition showing a selection of works from the museum's photography collection, including works by Man Ray, Robert Frank, Nan Goldin and Nobuyoshi Araki; from Jun 29 to Aug 18

## BARCELONA

EXHIBITION
**Fundació Joan Miró**
Tel: 34-3-3291908
● European Architecture 1984-1994: exhibition of a selection of maquettes, sketches and drawings of the projects that have competed for the Mies van der Rohe Pavilion Award in the period 1984-1994; from Jun 27 to Sep 1

## BERGEN

CONCERT
**Grieghallen** Tel: 47-55-216100
● Bergen Filharmoniske Orkester: with conductor Peter Guth and soprano Gabriele Fontana perform works by Johann Strauss Jr, Johann Strauss Sr, Luigi Arditi, Robert Stolz, Eduard Strauss, Josef Strauss and Carl Michael Ziehrer; 7.30pm; Jun 27, 28

## BERLIN

DANCE
**Staatsoper unter den Linden**
Tel: 49-30-2082861
● Carmen Suite: a choreography by Alberto Alonso to music by Bizet/Shchedrin performed by the Staatsopernballett. Soloists include Thiel, Schroeder, Brux and Freire; 7pm; Jun 28

## BONN

OPERA
**Oper der Stadt Bonn**
Tel: 49-228-7281
● Il Barbiere di Siviglia: by Rossini. Conducted by Renato Palumbo and performed by the Oper Bonn. Soloists include Bruce Fowler and Carlos Alvarez; 7pm; Jun 29

## BRUSSELS

EXHIBITION
**Palais des Beaux-Arts**
Tel: 32-2-5078466
● Ilya Kabakov. Sur le toit: exhibition of Ilya Kabakov's installation "Sur le toit" (On the roof), created for the Palais des Beaux-Arts; to Sep 8

## CHICAGO

THEATRE
**The O'Rourke Center for the Performing Arts**
Tel: 1-312-878-9761
● Passion: by James Lapine and Stephen Sondheim, derived from Ettore Scola's 1981 neo-romantic "Passione d'Amore". Directed by Warner Crocker and performed by the Pegasus Players; Thu - Sat 8pm, Sun 2pm; to Jul 14 (not Mon)

## COPENHAGEN

EXHIBITION
**Nationalmuseet - The National Museum** Tel: 45-33 13 44 11
● Sultan, Shah and Great Mughal: exhibition focusing on the religion, history and culture of the world of Islam. The display includes exhibits from Danish museums and collections, together with photographs and illustrations; to Sep 30

## DRESDEN

DANCE
**Sächsische Staatsoper Dresden**
Tel: 49-351-49110
● Ballett Dresden: perform Altera pars by Thoss to music by Glass, Voluntaries by Tetley to music by Poulenc, and Paganini by Vassiliev after Lavrovsky to music by Rachmaninov; 7pm; Jun 27, 30 (7.30pm)

## DUSSELDORF

EXHIBITION
**Kunstmuseum im Ehrenhof**
Tel: 49-211-8992460
● Glasdesign des 20. Jahrhunderts: exhibition of 20th-century glass works from the museum's collection; to Jun 30
OPERA
**Opernhaus Düsseldorf**
Tel: 49-211-89080
● Die Fledermaus: by J. Strauss. Conducted by Hans Wallat and performed by the Deutsche Oper am Rhein; 7.30pm; Jun 29

## FLORENCE

CONCERT
**Teatro Comunale**
Tel: 39-55-211158
● Orchestra e Coro del Maggio Musicale Fiorentino: with conductor Zubin Mehta and pianist Simone Pedroni perform works by Borodin, Rachmaninov and Mussorgsky. Concert on the Piazza della Signoria; 9.30pm; Jun 27

## GLASGOW

CONCERT
**Glasgow Royal Concert Hall**
Tel: 44-141-3326633
● The Royal Scottish National Orchestra: with conductor and pianist Jean Bernard Pommier perform Mozart's Eine Kleine Nachtmusik, Piano Concerto No.25 in C and Symphony No.39; 7.30pm; Jun 27

## LONDON

CONCERT
**Royal Festival Hall**
Tel: 44-171-9604242
● The Philharmonia Orchestra: with conductor Kurt Sanderling and pianist Mitsuko Uchida perform works by Mozart and Bruckner; 7.30pm; Jun 27
**Wigmore Hall** Tel: 44-171-9352141
● Yefim Bronfman: the pianist performs works by Scarlatti, R. Schumann, Tchaikovsky and Prokofiev; 7.30pm; Jun 27
EXHIBITION
**British Museum**
Tel: 44-171-6361555
● Kayama Matazō: New Triumphs for Old Traditions: the first major exhibition in the West of the art of Kayama Matazō, a deeply traditional Japanese artist who has in part modelled himself on the Edo period artist and designer Ogata Korin; to Jul 14
OPERA
**London Coliseum**
Tel: 44-171-6320111
● Salome: by R. Strauss. Conducted by Lionel Friend and performed by the English National Opera; 8pm; Jun 27

## LOS ANGELES

CONCERT
**Hollywood Bowl**
Tel: 1-213-850-2000
● The Magic of Mancini: the Los Angeles Philharmonic with conductor Esa Pekka Salonen and special guests Quincy Jones, Johnny Mathis, Andy Williams and Trisha Yearwood pay tribute to composer/conductor Henri Mancini; 7.30pm; Jun 30
THEATRE
**Ahmanson Theater**
Tel: 1-213-972-0700
● An Inspector Calls: by J.B. Priestley. Directed by Stephen Daldry and performed by The Royal National Theatre; Tue - Fri 8pm, Sat 2pm & 8pm, Sun 2pm, Jun 27 also 2pm; to Jun 30 (not Mon)

## MILAN

DANCE
**Teatro alla Scala di Milano**
Tel: 39-2-72003744
● Corpo di Ballo del Teatro alla Scala: perform La strada by Pistoni to music by Rota and Petrushka by Pollakov/Fokine to music by Stravinsky; 8pm; Jun 27, 29

## NEW YORK

MUSICAL
**Marquis Theatre**
Tel: 1-212-307-4100
● Victor/Victoria: by Blake Edwards (book), Leslie Bricusse (lyrics) and Henry Mancini (music). Directed by Blake Edwards and starring Julie Andrews and Rachel York; Tue - Sat 8pm, Sun 3pm, Sat also 2pm; ongoing show (not Mon)

## PARIS

DANCE
**Théâtre National de l'Opéra - Opéra Garnier**
Tel: 33-1 42 66 50 22
● Giselle: a choreography by Mats Ek to music by Adam, performed by the Ballet de l'Opéra National de Paris; 7.30pm; Jun 26, 27

## VIENNA

DANCE
**Wiener Staatsoper**
Tel: 43-1-514442960
● Staatsopernballett: perform Renato Zanella's choreographies Symphony in Three Movements, Movements for Piano and Orchestra and Le Sacre du Printemps to music by Stravinsky; 7.30pm; Jun 27

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*European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
*Financial Times Business Tonight*

CNBC:

08.30
*Squawk Box*

10.00
*European Money Wheel*

18.00
*Financial Times Business Tonight*

Ian Davidson

# UK attitude problem

## European partners are losing patience with Britain as the abyss between them widens to almost unbridgeable proportions

Britain's disastrous handling of the beef crisis has opened up an abyss between the UK and its partners in Europe, which is much wider and deeper than anything engineered by Mrs Margaret Thatcher. In fact, it is now so wide and so deep that it may prove to be unbridgeable.

There was a time, not so very long ago, when the repeated conflicts between London and Brussels could be characterised as an essentially British problem: the British were quarrelling with their European partners, but their partners did not want to quarrel with the UK. The British resisted the integrationist agenda to which their partners seemed committed, resistance that became increasingly strident under Mr John Major. But other member states managed to combine their integrationist commitment with a benevolent but dwindling patience, in the hope that the British would see sense.

Recent months have seen a fundamental transformation of this situation. The UK can no longer assume that its perpetual foot-dragging over the future of the European Union will be met by indefinite patience from the other member states. On the contrary, it seems clear they have now run so far out of patience with Britain that they are poised to force the ideological dispute to a crisis and a showdown. This used to be a one-sided quarrel: it is now a two-sided quarrel.

This quarrel will come to a head in the intergovernmental conference which is discussing the reform of the Maastricht treaty which created the European Union – and it will probably happen not many months from now. Not long ago, there seemed to be an unstated consensus among the other member states that they would calmly circumvent the British problem in the conference, by playing for time. Since Mr John Major's government had set its face against the constitutional changes on the agenda, they would drag out the conference negotiations until the spring of 1997. The hope was that Labour led by Mr Tony Blair would win the general election and herald an altogether more constructive attitude.

Thus after two and a half months, there has been no negotiation at the intergovernmental conference, in the sense of progress or convergence towards an agreed text for a new treaty. Instead, well-rehearsed national points of view have been reiterated.

But now, as a direct reaction to the beef crisis, there is about to be a reversal of tactics and a change of pace. The Germans, in particular, appear to have lost all patience with the British, and are determined that a new draft treaty will be tabled in the autumn, which will provoke a confrontation and perhaps a crisis.

This change of strategy is not just due to continental irritation with Mr Major's determination to turn the UK's problem of BSE (mad cow disease) into a quarrel with the EU. Nor is it just due to German anger at being made the butt of outrageous xenophobia in the British gutter press, though they have good cause to complain.

The reason is that the Germans and others have finally realised the nature of the British problem is such that it may be untreatable. It is not a problem rooted in pragmatism, because pragmatists always negotiate. It is not a problem rooted in principle: General de Gaulle had firmer principles on national sovereignty than Mr Major – and even he eventually gave up trying to impose them on the rest of the Community.

Sad to say, the British problem is now regarded on the continent as just a problem of attitude. Unless the UK takes a fundamentally different attitude to Europe, it will increasingly be marginalised.

Monetary union is a case in point. The UK government asserts that it could join the single currency if it wanted, without first joining an Exchange Rate Mechanism as required by Maastricht. When I raised this issue with a German economist, he gave a bleak and brutal verdict. "In Frankfurt," he said, "people are likely to insist that Britain must meet one convergence factor which is not mentioned in the Maastricht treaty: the attitude factor."

The same view was evident a recent defence seminar where one of the speakers was a very senior German official. "The British," he said, "say they are willing to co-operate where it is in their national interest. In Germany, we think it may be in our national interest to co-operate, even when it is not in our national interest. It is perhaps a question of attitude."

The same idea was driven home at a conference this month on the subject of majority voting in the Council of Ministers – an issue which pits the UK against the rest. Most member states believe that EU enlargement, to take in the 10 candidates from eastern and central Europe will require considerably more and easier majority voting: the British virtually reject any change in majority voting.

This British position is, of course, more emotional than logical. A recent pamphlet by Lord Taverne, a leading Labour figure in the 70s, has argued persuasively that majority voting is, in general, in Britain's national interest. In any case the 300 measures needed to create the single market simply could not have been passed without the option of majority voting.

At the majority voting conference, the speaker was one of the most authoritative pro-European negotiators in the EU. I expected him to deploy a powerful case for more majority voting, but what he said was deeper than that.

"Majority voting may not be, after all, as important as many people pretend. Perhaps the real issue is whether all the member states are prepared to play ball or not. What do you do, if one or more are in opposition, not playing ball?

"That was the British position in the last IGC; and the others got close to saying 'To hell with you'. At Maastricht they took the soft way out, by accepting the British opt-outs; but this time, they may face Britain with a stark choice. In the end, it's not a question of majority voting; it's a question of attitude."


# ·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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## Nostalgia for ferry service

*From Mr Mark Cantley.*

Sir, It was heartening to read Amon Cohen's article "Channel of discovery" (June 24) on the advantages of cross-channel travel by car, but it reinforced my nostalgia for the Zeebrugge-Felixstowe service, incomprehensibly axed by P&O last year. A full day's work in Brussels, then after dinner an hour's drive from the "Capital of Europe" to the coast, a night's sleep and a prompt arrival next day for anything from an early lecture in Cambridge to a lunchtime appointment in Scotland.

Admittedly, there is the 2am sailing from Calais to Dover, and the M25 is less crowded at 4am. But the limited sleep opportunities reduce one's alertness in the lecture, at the lunch or on the road. If the UK north of Watford decides to stay in the European Union, it would be good to restore the Felixstowe-Belgium link, and it might one day turn a profit.

Mark Cantley,
131 rue Verbist,
B-1030 Brussels, Belgium

## Intellectual uniqueness important

*From Mr Allister Heath.*

Sir, As a Frenchman studying economics in Britain and America, I found your recent survey on France (June 20) of interest but felt that it paid too little attention to the country's intellectual uniqueness. Although hamburgers and soda are increasingly displacing baguettes and red wine, France is still France.

In a fascinating poll published a few years back in the *Journal des Economistes et des Etudes Humaines*, 69 per cent of French lecturers in economics had no problem with rent controls, compared with only 2 per cent of American economists. Forty-nine per cent and 70 per cent of the French economists believed, respectively, that free trade doesn't increase aggregate welfare and that minimum wages don't harm the young, positions shared by only 2 per cent and 10 per cent of their "Anglo-Saxon" counterparts. These views clearly have an impact on public policy.

Sadly, I know where I'll find a job when I graduate. But I'll miss the cheese.

Allister G.F. Heath,
Fellow,
Center for Market Processes,
Fairfax, VA, US

## Airline alliance not for complete networks

*From Mr Austin Reid.*

Sir, Mr Per Stenmark's letter (June 19) on airline alliances showed a misunderstanding of code-sharing – both in practice and in results.

His convoluted example of an imaginary passenger carrying a British Midland ticket, but flying with Austrian Airlines on a route operated by Sabena, would indeed be misleading for the consumer – if this were a reality. But I can reassure him that it could not happen. British Midland does indeed have a code-share agreement with Austrian, which has a similar agreement with Sabena. However, code-shares are agreed between airlines for specific city-to-city services, not complete airline networks as was suggested. So British Midland code-shares with Austrian only on domestic UK services, and to Dublin, from Heathrow.

No airline has been more active in promoting airline competition than British Midland. Code-sharing is an integral part of our strategy. Contrary to Mr Stenmark's assertion, the result of our alliances is an increase in on-line competition.

Concerns have been raised about transparency – which is why British Midland called upon airlines involved in code-sharing to ensure passengers are informed of which airline they are flying on. By adhering to this principle, code-sharing does not distort competition, it adds to it.

Austin Reid,
managing director,
British Midland,
Donington Hall,
Castle Donington,
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## Transgenic products must have consumer's confidence

*From Dr Michael Antoniou.*

Sir, Henry Miller's Personal View (June 11) contained several that are worthy of challenge.

(1) The generation of genetically modified ("transgenic") plants and animals involves the random integration of the desired genetic material into the DNA of the host organism and can therefore hardly be called precise. This procedure results in disruption of the genetic blueprint of the organism with totally unpredictable long-term consequences.

(2) The transgenic approach to generating new varieties of plant and animal foods cannot be viewed as a natural extension of classical breeding methods as it allows the normal species barriers to be circumvented. Therefore, even animal proteins can now be made in plants.

(3) Foodstuffs from genetically engineered sources have already caused health problems (and in at least one case fatalities) from unpredicted production of toxic substances (tryptophan-like metabolites from engineered bacteria) and allergic reactions (brasil nut protein in soybeans).

(4) Most transgenic plants (57 per cent) that are under development are being engineered to be resistant to herbicides to allow the more liberal use of agrochemicals rather than less as stated.

(5) Transgenic crops engineered to be resistant to herbicides (e.g., potatoes, oilseed rape) have already been found to cross-pollinate with related wild-type species, generating potential super weeds. These environmental problems threaten to undermine laudable initiatives such as the LEAF scheme of integrated crop management to which most of Britain's supermarket chains now subscribe.

Unfortunately, the EU seems to be following the US example and is poised to introduce dozens of different varieties of genetically modified crops in the near future without adequate safety checks and concern for the long-term impact of these plants on the environment.

In addition, no mandatory labelling of genetically engineered foods is required. Surely, given the problems that have already arisen, what is needed is even greater caution with tighter legislation on the assessment of the safety of what are essentially "experimental" foods.

In addition, a clear labelling of these novel foods will ensure that the consumer not only has a choice, but also if unforeseen problems arise the source can more easily be traced.

It should be obvious that an open and honest policy is necessary to build consumer confidence in these products and ensure a healthy economic future.

Michael Antoniou,
lecturer in molecular pathology, London,
36 Mead Road,
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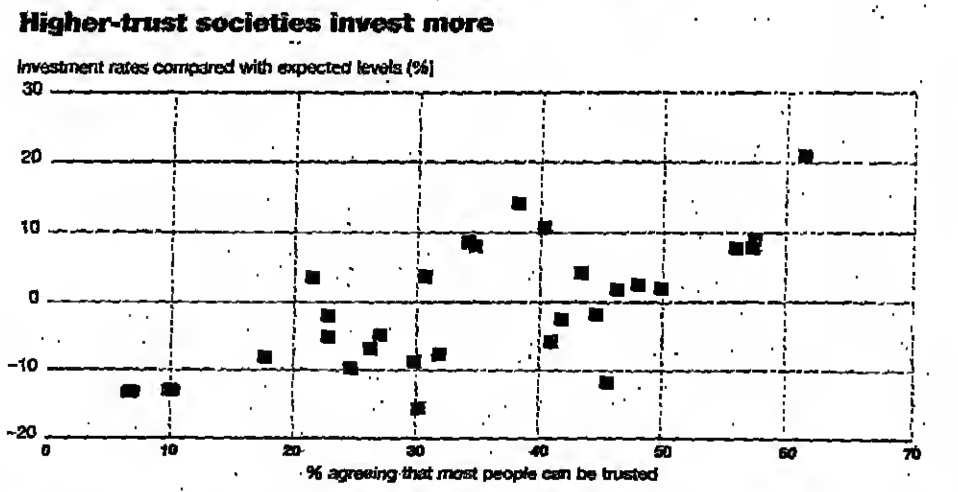
Personal View · Stephen Knack

# Low trust, slow growth

## A fall in standards of civic behaviour may result in damage to a country's economy

Declining civility and trust in others has reduced the quality of life in the US – and perhaps in other western nations. An increasing unwillingness to make sacrifices for the greater good of larger groups is evident in a range of behaviour from aggressive driving and loud stereos to lack of team play among college and professional athletes.

**Higher-trust societies invest more**




Robert Putnam, a Harvard political scientist, and other researchers have compiled statistical evidence on Americans' "civic-mindedness" that shows falling interest in public affairs, low turnouts in elections and declining interpersonal trust.

But more and more social scientists are beginning to suspect that this erosion in trust and civic behaviour can affect economic performance – in addition to the less quantifiable dimensions of well-being.

In a careful comparison of Italy's regions, Prof Putnam has shown important links between "civic association" and governmental and economic performance. Economic growth and the efficiency with which government services are provided are notably higher in regions where citizens belong to more groups, read more newspapers and vote more in referenda.

And in his recent book, *Trust: The Social Virtues and the Creation of Prosperity*, Francis Fukuyama claims that higher levels of interpersonal trust have given important competitive advantages to Japan, Germany and the US compared with societies such as France, Italy and China.

More systematic evidence from 29 market economies has recently become available through the World Values Surveys organised by Ronald Inglehart of the University of Michigan. This asks thousands of randomly-selected citizens whether they thought that "most people can be trusted" or whether "you can't be too careful in dealing with people" – among other questions.

The percentage who say that most people are trustworthy varies dramatically from Brazil's dismal 6.7 per cent to Norway's 61.2 per cent.

In work with Philip Keefer of the World Bank, I have found a striking correspondence between high-trust societies and high-performing economies. The chart shows this positive relationship between trust and levels of private investment: "trust" represents the percentage agreeing that most people can be trusted; "investment" indicates differences in investment rates from what would be predicted given the income levels, education and prices of investment goods, like capital equipment, in these countries.

Most countries with above-average trust also show higher-than-predicted investment levels while countries with low trust have low investment.

There is a similar – if not quite so strong – relationship between trust and economic growth across countries. We also found that economic performance was better in countries where people thought it was less acceptable to cheat on taxes, drop litter and so on.

In the US, the marked decline in productivity growth that began in the early 1970s is still puzzling economists, who are unable to explain a substantial part of this slowdown. But just before it began, the proportion of Americans who were trusting began falling from more than half in every poll in the 1960s to fewer than half in every poll taken since then.

Civic-mindedness and trust in others can be thought of as "social infrastructure" that facilitates investment and trade. If outsiders such as business partners, managers, suppliers, customers and workers can be trusted, the costs of doing business are lower.

It is very costly, if not impossible, to write a contract that foresees every possible contingency. Even in the most highly-developed economies, many business transactions rest on a handshake.

Where close relatives are the only people who can be trusted, more resources must be devoted to drawing up detailed contracts, monitoring employees and contractors, taking inevitable disputes to litigation and protection against criminal activities. This leaves entrepreneurs with less time and other resources for investing and innovating.

As industrialised economies become wealthier and more specialised, the costs imposed by absence of trust may grow with the number and size of transactions. But trust may be most important in poor economies since it can encourage investment where the banking system is undeveloped or lack of assets limits access to bank credit.

In the rotating credit associations common in many poor countries, members make regular contributions to a fund, which is awarded each month to one member on a rotating basis, typically for investing in a small business. Not backed by force of law, these arrangements depend on trust, as a member could refuse to contribute further after a payout.

And trust can also act as an imperfect substitute for independent judiciaries and other formal institutions that are lacking in these countries where property rights are not well protected and contracts are not effectively enforced.

The major influence of trust, however, may be through political mechanisms. Prof Putnam has found that the types of problems that citizens in Italy raise with politicians and bureaucrats depend on civic attitudes.

In the less civic-minded, less trusting regions, the issues people raise are primarily about jobs or public service issues that concern only their immediate families. In the more trusting regions, they are mostly about wider issues affecting the quality of life in the city, region or country.

Where citizens have learned to see themselves only as individuals or as members of narrow interest groups, politicians and bureaucrats are rewarded for successfully redistributing resources to their constituents. In more trusting areas, officials may be rewarded – or at least not penalised as severely – for implementing policies (such as free trade) that benefit the public interest rather than individuals, industries or other special interest groups.

Declining trust and civic-mindedness thus not only detract from our quality of life, they also reduce material well-being by adding to costs and reducing innovation. Most important, they encourage wasteful political conflicts over how to divide the pie, instead of identifying policies that increase its size.

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FINANCIAL TIMES
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# Bonn in the China shop

Germany has trodden on one of China's most sensitive toes in its dispute over Tibet. There is no doubt that China has used unacceptable repression in Tibet, but, as with Taiwan, the government in Beijing regards its claim to sovereignty as an issue of paramount importance. It takes any challenge to that claim as unwarranted interference and a general attack on its own authority.

Bonn should thus have known that it had to proceed carefully, especially since China is particularly sensitive to what it regards as the crime of "splittism". One factor is the lack of self-confidence in Beijing, as the central government grapples with social and economic change. Another is an apparent increase in separatist tendencies, notably in the Moslem province of Xinjiang.

China may have difficulty in understanding that a democratic government cannot suppress a parliamentary resolution such as the Bundestag passed on Tibet. But Bonn fanned the flames with its willingness to put public money into a high-profile conference addressed by the Dalai Lama.

That is poor tactics if the main aim is to build a close economic relationship with an important trading partner. Public German protests will also do little to help the people of Tibet. But the debacle raises yet again the question of whether economic relations can be divorced from matters of legitimate concern to western voters such as human rights.

The US experience is instructive. President Clinton discovered early in his administration that linking trade privileges to human rights was counter-productive. Trade opportunities were sacrificed for no compensating gain on human rights.

On the contrary, trade and the increasing prosperity that comes with it can be a civilising influence. Although trade embargoes may be justified in extreme cases, both sides will usually lose when trade policy decisions are taken on the basis of human rights rather than commercial criteria. This is the risk for Germany and China.

China has recently seemed to take an unhealthy pride in linking trade and investment deals to what it considers good political behaviour by its partners. But that is exactly what it complains the US did in seeking to link human rights to trade privileges, and it is an equally misguided and costly approach when applied by China. It will prevent deals from being considered on their intrinsic commercial merits, while, as Germany has found, trying to buy political favours with trade largesse can easily backfire.

Germany may find that the publicity given to the affair will spoil a constructive economic engagement with China. But it should not allow the argument to stop it pursuing this course. China will always resist outside pressure, but rising prosperity may eventually prompt it to decide for itself that the time has come to treat with decency those over whom it now holds such brutal sway.

# Mideast standoff

Last weekend's Arab summit in Cairo agreed that the only basis for an enduring settlement in the Middle East would be for Israel to return conquered Arab land in exchange for peace. That is the formula underwritten by the international community since the 1967 six-day war. It is also the means through which all the agreements between Israel and its Arab neighbours have been reached.

The Arabs' message was addressed firstly to Mr Benjamin Netanyahu's new government in Israel, which says it will negotiate peace "without pre-conditions" but will hang on to most of the Arab land which Israel still occupies.

The summit's conclusions were also an appeal to other nations, particularly to the US, to guarantee that land-for-peace will remain the agreed basis for negotiation. But Arab leaders warned that they would reconsider the rapprochement of the past five years if Israel tries to keep Arab land.

This is the stalemate confronting Mr Warren Christopher, US Secretary of State, who was in talks with Mr Netanyahu in Jerusalem yesterday and is due to meet President Hosni Mubarak of Egypt, and Mr Yassir Arafat, the Palestinian leader, in Cairo today.

The rapid US response is to be welcomed, but may prove to be no more than a holding operation. Nobody in the Middle East believes that President Bill Clinton will take any risks in the region before he faces US voters in November. One of those risks would be to alienate the powerful Jewish lobby in the US.

Moreover, the credibility of the US as an intermediary has been dented among the Arabs by Washington's uncritical support for Israel's blockade of Palestinian territories and the 17-day bombardment of Lebanon in April. Mr Netanyahu may be suspicious that the US's support for Israel at that time was intended to help the re-election of his predecessor, Labour leader Shimon Peres.

While the Clinton administration is worried by Israel's hawkish turn, it seems to underestimate the desperation in the Arab leaders' response. They fear that they might lose the initiative to violent Islamic fundamentalists, who threaten them as well as Israel.

The US must therefore continue to insist on the legitimacy of the land-for-peace solution, as the European Union did at its Florence summit last week. The return of Arab land would provide an agreed basis for a common Arab-Israeli front against irregular forces, and meet one of Israel's two over-riding security concerns. The other is a plan which Washington was looking at before Mr Netanyahu's election, a pact by which the US would come to Israel's defence in the event of attack by regular Arab armies. The US should now explore whether such guarantees can be made to work for peace.

# Amstrad's lessons

The news that Amstrad, the British electronics company, may be about to lose its independence is more significant than the company's £170m market capitalisation might suggest.

Once, Mr Alan Sugar, Amstrad's ebullient chairman, seemed to be leading the way towards a new future for western companies threatened by competition from east Asia. Now Amstrad is in talks about being taken over by Psion, a company with more innovative products but a much more conventional business model. The likely outcome provides some telling lessons about how to respond to Asian competition.

The Amstrad approach seemed to offer a way in which western companies could subcontract the manufacture of products to east Asia while retaining most of the value added themselves. Amstrad's skills lay in accurately understanding consumers' needs, specifying products to meet them, contracting for low-cost production, then marketing and selling them in western Europe. This process worked best at the moment when previously expensive, high-end technology suddenly became suitable for the mass market, initially in consumer electronics, then in personal computers.

The business model was flawed, in several ways. Because of its commitment to mass-market scale, it required a level of inventory that proved damaging when any particular product failed to sell. It was also vulnerable to competition – for example, from the mass-market retailers through whom Amstrad reached its customers; from the product suppliers; or from premium-brand manufacturers cutting costs to eliminate Amstrad's pricing edge.

More damaging, it relied on a string of technologies ready to make the transition to a mass market. When, in the early 1990s, Mr Sugar lamented that "the day of the blockbuster product seems to be over", he was implicitly recognising that shorter product cycles have left little scope for Amstrad to take a product to the mass market. The initial innovator now plays that role.

The contrast with Psion, which makes electronic personal organisers, is striking. It is a technology-based company, with a premium-priced product, fat margins, and a high degree of vertical integration. Indeed, its reliance on internal technology explains its interest in Amstrad, which bought a GSM digital mobile-phone company three years ago. Dancall fills an important technology gap for Psion, which needs to be able to offer wireless personal organisers.

Amstrad's time had long gone; its likely disappearance is no surprise, even to Mr Sugar. The broader lesson is that exploiting cheap Asian production costs is not, by itself, a long-term strategy for a western manufacturing company. Control of technology and innovation is essential, too.

# Plug for the generation gap

## Power generators fear the new EU agreement on energy liberalisation unduly favours the monopolies, say **Neil Buckley** and **Simon Holberton**

Last week's political headlines in Europe were dominated by the European Union summit in Florence and the agreement on a framework to lift the ban on British beef exports. But hours before the end of the beef war, EU energy ministers reached another agreement in Luxembourg that is likely to be more far-ranging in its implications and only a little less controversial.

After eight years of negotiations, they agreed to open the EU's $175bn-a-year electricity market partially, but progressively, to competition. The deal will allow more large electricity users to shop around for the best prices inside the Union, and allow challenges to national monopolies such as that of Electricité de France (EdF), the state-owned French utility.

The deal's supporters, including the European Commission and business, say it will reduce EU industry's costs, improve international competitiveness and safeguard jobs. Its many detractors criticise it variously for going too far or for not going far enough.

"Electricity liberalisation goes to the heart of the debate between governments which support free markets and those committed to the public service credo," says a senior Commission official. "It touches very sensitive issues. We did very well to get any kind of deal."

The Commission calculates liberalisation could save industry $40bn a year. But the agreement has been reached only after years of wrangling and rewrites, held back by unusually deep divisions between member states.

On one side, Germany, lobbied hard by its businesses which shoulder some of the highest electricity costs in Europe, led a pro-liberalisation group including the UK, the Netherlands and Scandinavia. On the other, France, under pressure from the unions to protect EdF, led anti-liberalisers including Belgium and Greece.

Agreement was only finally secured when Chancellor Helmut Kohl, of Germany, agreed a compromise with President Jacques Chirac, of France, to which other EU states unanimously, if sometimes grudgingly, signed last Thursday.

The agreement will allow generators to build power stations in any EU country. And it will require national monopolies for the first time to separate their generation, transmission and distribution businesses, producing clear pictures of their costs and prices which will allow new competitors into their markets. Each member state will have to open a minimum share of its power market to competition in three stages, which could start as early as January. Initially, they will have to open up 22.5 per cent of their markets, rising to 28.5 per cent after three years and 32 per cent after 2006.

Smaller states such as Belgium, Greece and Ireland, which fear the impact of competition on their small domestic power industries, have been granted an extended deadline for implementing the law.

The most controversial aspect of the agreement is the right of member states to choose between two methods of market opening. One, the solution favoured by Germany and the UK, is negotiated third party access, where customers can buy electricity freely from domestic or foreign generators, paying a fee to the distribution network for carrying the electricity. The other is the single buyer system favoured by France: under this more restrictive option, a designated national electricity buyer retains control of the national grid, and enters into such contracts on behalf of its customers.

German generators, which operate in the EU's biggest but most fragmented power market, are angry at what they see as significant concessions to France. Under the single buyer system, customers will not be able to buy electricity directly from independent generators, but only through the national buyer – which in France's case will be Electricité de France. German generators fear the single buyer would learn the price and be able to undercut any competitor. They fear the single buyer system will allow monopolies such as EdF to stride into their more open market while allowing only the minimum of competition at home.

"The single buyer system was invented to prevent competition. We have said this so many times it's sickening," says Mr Christoph Hilz, senior energy analyst at RWE Energie, Germany's biggest electricity company.

Commission officials involved in drafting the legislation insist such fears are unfounded, and that single buyers will buy electricity in bulk on behalf of many customers. The single buyer will know the amount individual customers are buying, but not the price. And the agreement includes a "safeguard clause" giving the Commission powers to force recalcitrant states to open their markets.

The agreement also includes a controversial "public service" clause which allows states to override certain competition provisions. This clause would allow governments to protect their domestic industries if competition conflicts with, for example, environmental protection or security of supply obligations imposed by the state on its electricity suppliers.

The German generators fear France will use this clause to prevent foreign generators from setting up there. For example, France could impose on new generators its requirement that 80 per cent of electricity should come from nuclear power, to ensure long-term security of supply. The costs of building a nuclear plant would deter most generators from entering the market. Such restrictions could be challenged only through hearings in the European Court of Justice.

The deal has had a guarded welcome from large power users. It has been called "an acceptable first step" by the Ener-G8 group of energy-intensive businesses comprising Akzo Nobel, BASF, Bayer, Dow Europe, ICI, KNP, Mercedes-Benz, Pilkington and Thyssen.

But consumer organisations worry that household electricity bills may rise to compensate for lower prices charged to big users.

"We fear that the burden of competition between industrial users will be borne by domestic consumers by way of higher prices for their energy," warned Mr Jim Murray, director of the Bureau Européen des Unions de Consommateurs, the European consumers' organisation.

Mr Alain Juppé, French prime minister, acknowledged this danger last week when he warned EdF it would need to "recast" its tariffs to meet competition from foreign producers, but making clear he expected any price cuts for industrial users to be matched by similar reductions for French householders.

In the UK, which led Europe in introducing competition, the Electricity Association, the industry's trade association, laments that the plan will leave many EU countries less liberalised in 2006 than the UK was 15 years earlier. Competition in many places will not extend even into the small business sector, let alone into the household market.

Some in the industry believe it would have been better to leave electricity and gas liberalisation to the European Court. In five outstanding cases in the Court, the European Commission is challenging the right of national suppliers such as EdF to monopolise the import/export trade in electricity and gas. If the Court had ruled such monopolies contravened free trade provisions in the Treaty of Rome, that would have led to de facto liberalisation of gas and electricity.

"Maybe the European Court would have taken another two years to decide," says Mr Hilz of RWE Energie. "But now we won't have full liberalisation even after nine years."

The European Commission says leaving the issue to the Court risked ending up with a chaotic, unregulated liberalisation. It insists the progressive electricity liberalisation will allow the market to take hold, as already happened in sectors such as telecommunications.

"This deal partially opens the door," says a Commission official. "We hope the partially opened door will be kicked open by market forces."

Mr Bob Turgoose, a utilities' industry consultant at Price Waterhouse in London, agrees – he believes the agreement is the most important development for the European power industry in 50 years. "Here we have something that affects everyone and has great potential for change," he claims.

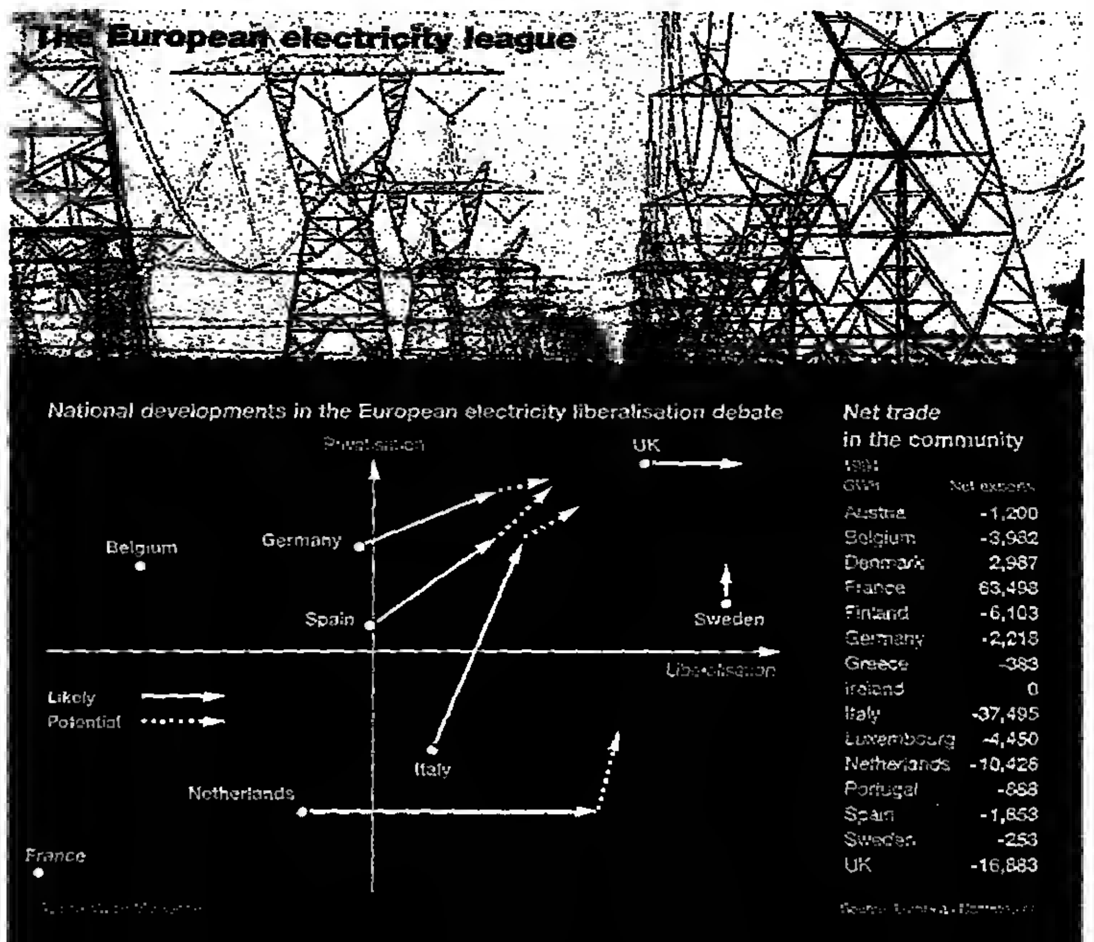
The success of liberalisation in countries such as Sweden, Finland and the UK will generate momentum for change that will be difficult to contain, he says. Competition in the UK, for example, will reduce electricity prices there by up to 10 per cent in real terms over the next two years.

"The trade off people made last week was between opening the market but limiting that opening to 35 per cent of the market," he says. "I just think they were not very good at seeing the thin end of the wedge."

Just as important, the Commission believes achievement of an electricity deal clears the way for opening up the gas market. It may launch proposals for gas liberalisation before the year-end.

Ireland, which takes over the rotating EU presidency next month, is also keen to make progress on gas, as is the Netherlands, which succeeds Ireland and is one of the EU's biggest gas producers. Customers and pro-liberalisers will hope that, after the lessons learned with electricity, getting a deal on gas will not take another eight years.

The European electricity league




Net trade in the community

| GWh | Net exports |
|---|---|
| Austria | -1,200 |
| Belgium | -3,932 |
| Denmark | 2,987 |
| France | 63,498 |
| Finland | -6,103 |
| Germany | -2,218 |
| Greece | -383 |
| Ireland | 0 |
| Italy | -37,495 |
| Luxembourg | -4,450 |
| Netherlands | -10,426 |
| Portugal | -868 |
| Spain | -1,653 |
| Sweden | -253 |
| UK | -16,883 |

European electricity prices

| | Small | Medium | Large |
|---|---|---|---|
| Germany | 8.47 | 7.91 | 6.37 |
| Italy | 7.47 | 6.89 | 4.59 |
| Austria | 7.30 | 7.23 | 6.04 |
| Belgium | 6.67 | 6.46 | 4.73 |
| Spain | 6.59 | 6.08 | 5.30 |
| Luxembourg | 6.59 | 5.43 | 4.40 |
| Portugal | 6.50 | 6.40 | 5.30 |
| Ireland | 5.46 | 5.06 | 4.13 |
| Netherlands | 5.42 | 5.26 | 4.42 |
| France | 5.25 | 5.21 | 4.10 |
| UK | 5.09 | 4.52 | 3.97 |
| Greece | 4.86 | 4.86 | 3.59 |
| Denmark | 4.68 | 4.58 | 4.23 |
| Finland | 4.36 | 4.29 | - |
| Sweden | 3.96 | 3.12 | 2.56 |

Benchmark loads

| | |
|---|---|
| Small | 500 KW<br>1,750 MWh/year<br>(40% annual load factor) |
| Medium | 2.5 MW<br>8,760 MWh/year<br>(40% annual load factor) |
| Large | 10 MW<br>52,560 MWh/year<br>(60% annual load factor) |

# · OBSERVER ·

## Coldstream's a hot tip

■ Perhaps because it loosens tongues and clouds judgment, wine is one of a public relations man's better friends – until the morning after. But hitting the bottle has turned a tidy profit, with no hint of a hangover, for one UK firm.

City of London PR Group, a publicly traded company, stands to make a profit of about £100,000 on its investment in Coldstream Australasia, Australia's smallest listed winery, which is being taken over by Southcorp, a much larger producer. Many of City of London's clients are natural resources companies, which means it's no stranger down under. But it also runs an investment portfolio on the side.

It was one of a group of UK investors which followed Garnet Harrison, when the former chief executive of Tyndall Australia and a two-time Tory parliamentary candidate, took the reins at Coldstream late in 1993.

According to Manchester stockbroker Laurie Beevers, a Coldstream director, the aim was to create a vehicle for other Australian investments but this didn't bear fruit because they "underestimated the vagaries of the wine business".

But the vineyard doubled its acreage in Victoria's Yarra Valley and its Coldstream Hills pinot noir and chardonnay – the 1992 vintage of the latter was on the wine list at Quaglino's, in St James's, at £19.95 a bottle until stocks ran out.

Southcorp, which owns Penfolds, vintners of Grange Hermitage among other fine Australian reds, wants to use Coldstream to establish a similar premium position in whites.

## On the wall

■ Mirror Group Newspapers, it seems, has yet to verse itself in the semantic politics of Northern Ireland. When the company announced last week it was acquiring The Newsletter, the province's staunchly pro-unionist daily, the accompanying press release referred to the paper's operations in the "six counties" of the north of Ireland.

Only someone pretty unfamiliar with the province's sectarian divisions would fail to recognise the hand of an Irish nationalist in such a description. When The Newsletter reported the deal in its own pages, it quietly amended the press release, to refer to Northern Ireland.

David Montgomery, the Mirror boss and an Ulsterman, should be blushing.

## Press the point

■ Robert Kuok, chairman of Hong Kong's South China Morning Post, knows a thing or two about doing business in China and the importance of Guanxi – or connections. So the announcement that Sir Percy Cradock is to join the newspaper's board may mark more than an attempt to beef up its mainland expertise.

One of the architects of Hong Kong's handover to China and a long-time friend of Beijing, Sir Percy joins the paper in the midst of distribution problems on the mainland. This despite the fact that Kuok is spending millions on a score of hotels there.

Chris Patten is unlikely to be best pleased by the appointment, having clashed often and hard with Sir Percy over the democratic reforms of his governorship.

That itself, of course, may help oil Kuok's distribution wheels.

## Like lambs

■ Germans are becoming increasingly incensed at the "war" the British tabloids have declared ahead of tonight's Germany-England football match. Yesterday they began getting their own back.

Bild, the tabloid paper, which is leading the assault for Germany, had 11 questions for the British.

Why, as the motherland of football, have you never won the European Championship? Why do you wear swimming trunks when you go into the sauna? Why can you not beat your own colonies at cricket?

Who actually won the semi-finals of the 1990 World Cup - you or we?...And so it goes on.

Here's one they got a bit confused about, though.

Why do you eat your pork with mint sauce?

Then again, perhaps Bild reporters have stumbled upon the secret weapon England is using to prepare for tonight's showdown.

## Room quay

■ A travel tip for those on business in Ho Chi Minh City.

It might be worth verifying, before you check into the Saigon Floating Hotel, that it won't be slipping its moorings at the dead of night and sailing off down the Saigon River.

It seems the hotel, which was towed all the way from the Great Barrier Reef in Australia in 1989, has had its licence terminated and can no longer tie up at a quay in central Ho Chi Minh City.

Known to foreign residents fondly as "The Floater" and jointly run by Japan's EIE International and Saigon Tourist, it gained fame as the only international standard hotel in Vietnam's southern city in the pioneering days of foreign investment in the early 1990s. The authorities have repeatedly threatened to set it adrift by cancelling its licence.

Question is, will they really do it this time?

The Financial Times

## 100 years ago

**The Venezuelan Difficulty**
Sir Julian Pauncefote, Her Majesty's representative in Washington, called yesterday on Mr. Olney, the Secretary of State, and requested him, as Great Britain is not represented in Venezuela either by a Minister or a Consul, to obtain the views of the Venezuelan Government on the Harrison incident. The Americans have agreed to take such steps as are necessary to secure the immediate release of Mr. Harrison. The Venezuelan Minister in Washington, Señor Andrade, called on Mr. Olney later in the day, and assured him that an exaggerated importance had been attributed to the Harrison incident. No indignity had been offered to Great Britain, nor had any wrong been intended.
*[Harrison was detained by the Venezuelan authorities during a border dispute.]*

## 50 years ago

**Makers of A Million Cars**
Advertisement: "Austin, makers of a million cars. The first Austin was built in 1906. With pride we can now announce completion of the millionth. And now for the second million, with production already higher than before the war and steadily increasing, Austin is making every effort to meet home and overseas demands. The Austin – you can depend on it."

FINANCIAL TIMES
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Government targets quarter of 24,000 workforce

# Jobs go in shake-up at French naval shipyards

By David Buchan in Paris

The French government yesterday announced a big reorganisation of its DCN navy shipyards, putting them under pressure to become more efficient and cutting the 24,000 workforce by a quarter.

Mr Charles Millon, the defence minister, said a ministry inquiry had found that the Direction des Constructions Navales yards now had 4,840 more workers and engineers than they needed because of domestic military spending cuts and the level of export contracts.

Promising there would be no outright redundancies, Mr Millon said three-quarters of the "excess" labour would be shifted to other defence-related jobs while the remaining quarter would be put on short-time working.

A further 1,420 DCN jobs will disappear as workers retire over the next two years and are not replaced.

Mr Millon complained of declining productivity, rigid personnel practices and cumbersome purchasing policies at the nine DCN yards, which constitute the largest shipbuilding force left in western Europe.

He announced that as part of wider defence procurement reforms later in the year, the DCN would be split into two divisions, separating the role of buyer of naval systems from that of building them. "It is simple and logical that the function of buyer should be separated from that of seller," he said.

He also said the navy yards' export company, DCN International, would play a more active part in hunting for foreign navy ship orders, with the goal of increasing its world market share from just over 10 per cent to 20-30 per cent with FFr3bn-5bn ($580m-$960m) worth of exports a year. DCN International might be given more capital to enable it to seek alliances and joint ventures in other countries, he indicated.

But he pledged that the DCN would remain a government "arsenal", a status which makes outright redundancies near-impossible and alliances with other, mostly private, European yards difficult. But DCN unions protested at the "radical purge".

The announcement hit the yards at Cherbourg and Brest hardest, where more than 3,000 jobs will disappear, but left Toulon, the largest yard where 4,550 workers do mainly maintenance work, almost untouched. The unions forecast Toulon's turn would come as cutting back new ship construction would eventually hit maintenance work.

The task of absorbing DCN workers elsewhere will be difficult in view of next month's expected announcement that up to 82 regiments are to be disbanded and military bases closed. Giat, the near-bankrupt tank, arms and munitions maker, is shedding over 2,000 jobs around the country.

Giat this week confirmed its plan to join Royal Ordnance of the UK and Rheinmetall of Germany in a programme to make a new 140mm tank gun.

Jobless rate near record, Page 3

# World Bank alters lending to aid poorer countries

By Graham Bowley in London

The World Bank is to change the way it lends to poor countries, in a move which could substantially cut their borrowing costs.

The decision, announced yesterday, to allow the countries a wider choice of currencies for loans, follows their intense lobbying of the World Bank on which they are heavily reliant.

The bank's $145bn stock of outstanding multi-currency debt, covering 300 borrowers in the developing world and 2,000 individual loans, will be affected, as well as the Bank's $12bn-$14bn annual lending programme.

The move will allow poor countries to borrow in currencies which much more closely match their borrowing needs.

It is the latest example of the bank's efforts under new president Mr James Wolfensohn to reform the bank and make it more sensitive to the needs of poorer countries.

At present most loans are made in the form of a multi-currency basket, comprising a mix of three major currencies: the US dollar, the Japanese yen and the German D-Mark.

Loans took this form since the bank faced restrictions in the currencies it could borrow on the international capital markets. It was also thought that some developing countries lacked the resources and expertise to manage individual currency risk.

But the policy meant many countries were denied access to the currency of their choice and in some cases it raised borrowing costs sharply.

Yesterday's announcement, which was agreed at a meeting of the World Bank's board, means that countries will be able to convert undispersed loans, of which there is $44bn outstanding, into one of seven major currencies. These include the dollar, D-Mark, yen, Swiss franc, Dutch guilder, pound sterling and the French franc.

Countries with loans that have already been dispersed, which total $101bn, will be able to convert them into one of four currencies: the dollar, the D-Mark, the Swiss franc and the yen.

The reform will also expand existing arrangements for single currency borrowing. Since last year, countries have had access for up to half of their new annual borrowing to loans in any one, or a combination of, seven major currencies.

This limit will now be abolished so that countries can take up all new borrowing in a single currency.

The bank said these reforms were now possible since it was now able to borrow more widely and more easily on international capital markets. In addition, the bank's developed country shareholders, have extended its access to their markets.

THE LEX COLUMN

# Nouvelle finance

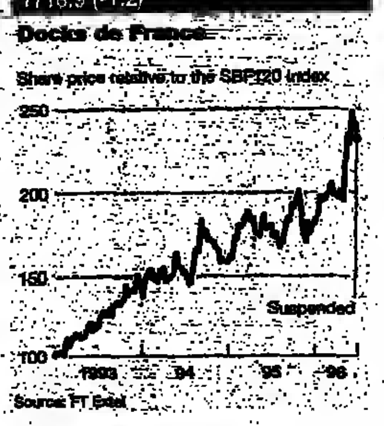
Auchan's FFr16bn ($3.1bn) hostile bid for Docks de France is the latest sign that the French may be adopting Anglo-Saxon business mores. Change is certainly afoot. But the bid is unlikely to unleash a slew of hostile attacks.

Auchan's move is the result of particular circumstances. The government's freeze on the construction of hypermarkets has placed French food retailers in a bind. Some, like Carrefour, are coping by stepping up overseas expansion. But for Auchan, which needs to gain critical mass in the domestic market, the timing of the freeze has proved awkward: hence the appeal of buying market share, despite the dangers of a hostile bid.

For most companies, though, the difficulties involved and the lack of viable targets remain a powerful deterrent. Even publicly quoted companies are often tightly held. This will change only when France develops a private pension system, furnishing a broad base of institutional investors to take the place of the country's web of cross shareholdings. Change is coming, but slowly: the government wants to foster a private pension system subtly, through tax breaks, without drawing the electorate's attention too overtly to the dire condition of the state's pay-as-you-go system.

This does not mean that French investment bankers will be sitting on their hands for the next 10 years. But they will be busy reshuffling assets and restructuring industrial sectors, as companies sell subsidiaries and buy out minorities. Hostile bids may become more frequent but they will still be few and far between.

FT-SE Eurotrack 200:
1716.9 (-1.2)




## Nycomed

Yesterday's profits warning from Nycomed shows the Norwegian pharmaceuticals group has been caught napping by its rivals. Nycomed's management spent much of the past year negotiating a merger with Ivax of the US – which its own shareholders blocked – and subsequently demerging its Hafslund energy business. Meanwhile, some of its US competitors have been slashing prices and grabbing market share in its core area of X-ray imaging products.

As a result, Nycomed looks dangerously exposed. Following the demerger, imaging products make up 85 per cent of profits and competitors like Mallinckrodt and Bracco (half-owned by Germany's Merck) have been knocking 40-50 per cent off US list prices for them. Since deals are being increasingly struck with a few big buyers rather than individual hospitals, the loss of a handful of contracts can represent a serious erosion of market share. Furthermore, the imaging market as a whole is being threatened by the introduction of cheaper, off-patent products, so current price levels are likely to become the norm. That is less of a problem for bigger diversified groups like Mallinckrodt. Nycomed, by contrast, needs all the cash flow it can get to build up its fledgling generics drugs business as the imaging market matures.

With the shares down a third since the failure of the Ivax merger, Nycomed is an obvious bid target and its management is hardly in a strong position to fight for independence. The Norwegian shareholders who torpedoed the Ivax deal are much more likely to give the next buyer a fair hearing.

## Prudential

The biggest question mark over Prudential Corporation's plan to float a big chunk of Mercantile & General, its reinsurance arm, is how it plans to spend the money. Few shareholders will quibble with the plan on strategic grounds; there are negligible synergies between reinsurance and Prudential's main activities. But whether it makes sense to pull out of a business Prudential knows to help pay for one it does not – a building society – depends on what it is able to buy and at what price. Until then, the jury will remain out.

In the meantime, shareholders have to ponder a more immediate question: why Prudential is planning a flotation, not a trade sale. M&G is particularly strong in life reinsurance, where it has leading market positions and few heavyweight competitors; as a result, it is almost certainly worth substantially more to a competitor like Swiss Re or Munich Re than as a stand-alone entity. Why, then, is Prudential opting for a partial flotation – on the face of it, the option most likely to secure M&G's continued independence and the least attractive price?

The answer, shareholders have to hope, is that the flotation plan is actually the opening shot in an auction process. This is a plausible explanation: if Prudential's real aim is a trade sale, having a flotation alternative up its sleeve does at least give it an extra card to play – important, when it has only a handful of credible potential bidders to play off against each other. But Prudential should be under no illusions: if the plan unveiled yesterday actually comes to fruition, it will have failed.

## Psion/Amstrad

In recent years, Mr Alan Sugar has seemed more interested in running Tottenham Hotspur, his football club, than Amstrad, his electronics business. Now he looks like being able to devote himself to football full time. At first sight, it may seem odd that a high-tech success like Psion, a world leader in hand-held computers, should want to buy such a tattered business. Amstrad's core consumer electronics business, which made it a stock market darling in the late 1980s, is now virtually worthless as vicious competition has squeezed margins.

The proposed deal makes sense only when it is realised that Psion has no interest in Amstrad's old core, which would probably be sold. Rather, it has its eyes on Dancall, a fast-growing but loss-making cellular phone manufacturer. Psion has a strategic need to incorporate communications technology within its hand-held computers. Without this, Psion will be handicapped in the emerging market for wireless devices that can make phone calls, surf the Internet and tap into office databases. Even with it, the company will face tough competition from the likes of Apple, Hewlett-Packard and Nokia.

At the indicated price of 200p a share, Psion will be paying £334m ($358m) for Amstrad. If all it was getting was Dancall, this would be excessive. In fact, it will also receive net cash of around £80m and Viglen, a personal computer business Amstrad bought two years ago, which is worth about £100m. Subtract that and the implied £54m for Dancall and the old Amstrad core does not look unreasonable, given the deal's strategic appeal.

Lex comment on Wickes, Page 21

# China and Germany attempt to calm dispute over Tibet

By Tony Walker in Beijing and Michael Lindemann in Bonn

Beijing and Bonn yesterday tried to stop their dispute over Chinese policy in Tibet, which has led to the cancellation of several German ministerial visits, damaging their long-term relations.

A Chinese foreign ministry spokesman said that, as long as the German government took "concrete and effective" measures to make amends, relations would not be allowed to deteriorate further. He did not specify the necessary measures.

In a sign of Chinese sensitivity over Tibet, the China Daily newspaper yesterday denounced the Dalai Lama, Tibet's exiled spiritual leader, as a puppet of international forces opposed to Beijing. It said he would never attain his goal of independence for the Himalayan region.

Beijing last week withdrew an invitation to Mr Klaus Kinkel, tha German foreign minister, to visit China next month after the Bundestag, the lower house of the German parliament, passed a resolution condemning human rights violations in Tibet.

Germany retaliated by cancelling planned visits to China by the ministers of construction and the environment. The government has also recommended that the Bundestag's legal committee call off a 10-day visit to China and Mongolia which was due to begin on Saturday.

The Chinese foreign ministry spokesman appeared to draw a distinction between the German government and the "few people" responsible for the invitation to the Dalai Lama, and the parliamentary resolution.

"I believe the majority of the German people support and endorse the policy of friendship and co-operation between China and Germany," he said. "However, there have always been a few people within Germany who tend to interfere in China's internal affairs."

The Chinese spokesman spoke approvingly of a statement by Mr Helmut Kohl, the German chancellor, who had sought to calm the argument by reiterating his country's commitment to its relations with China.

The German government has said it will not back down in response to Chinese protests but is likely to ensure that Beijing is not given further provocation.

It has blocked an attempt by the opposition Social Democrats and the Greens to table a formal Bundestag debate on Sino-German relations this week.

However, Mr Christian Schwarz-Schilling, a member of Mr Kohl's Christian Democratic Union and a leading proponent of last week's motion on Tibet, warned that the Bundestag could well take further action because of Chinese behaviour in Tibet.

Bilateral trade of Dm27bn ($17.6bn) makes Germany China's biggest European trading partner. At the end of 1995, Germany ranked ninth among investors, having invested $1.2bn and pledged $4.4bn.

Editorial Comment, Page 13

# Volvo stake

Continued from Page 1

year, most to be achieved by 1997.

The Pharmacia & Upjohn disposal is the biggest single step in Volvo's asset sale which began after it broke off a planned merger with France's Renault in late 1993 and decided to concentrate on its core automotive manufacturing.

# Yeltsin fires seven generals

Continued from Page 1

a leading Russian magazine that Mr Anatoly Chubais, the hero of the liberal establishment, would not return to government if he was elected for a second presidential term.

Mr Chubais, the architect of the country's bold mass privatisation programme and blamed by millions of Russians for their economic difficulties, triumphantly announced the defeat of the hardliners last week on behalf of Mr Yeltsin.

That is a move many democrats are rueing this week, because it has given the Communists fresh ammunition just at a time when Mr Yeltsin seemed unbeatable.

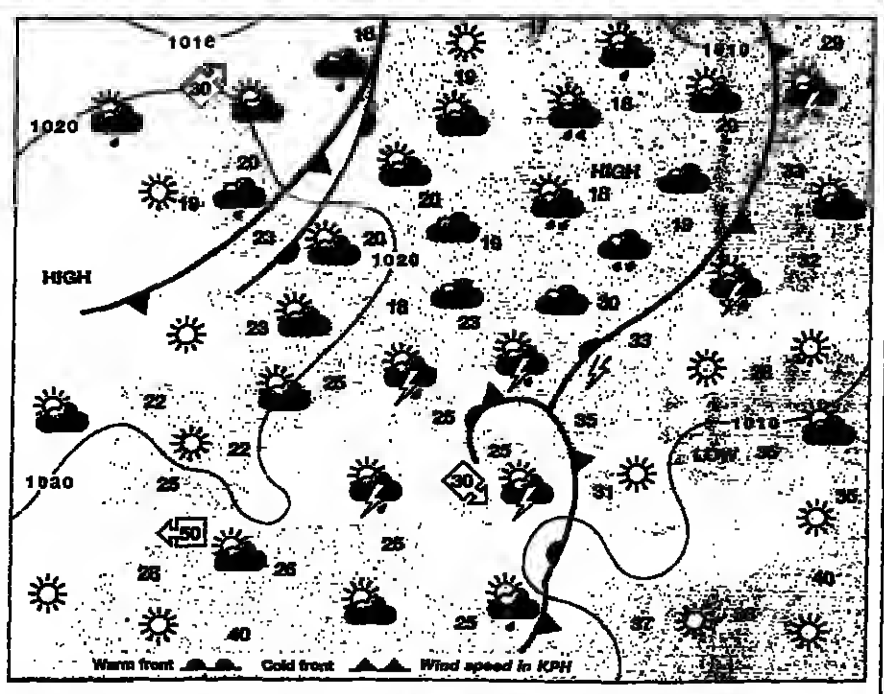
## FT WEATHER GUIDE

### Europe today

Most of central Europe will be cloudy and cool with afternoon temperatures near or below 20C. The Benelux and France will have clearer skies, allowing temperatures to rise to between 17C and 24C. South-east England and southern Scandinavia will be dry and sunny with temperatures reaching 20C-24C. A band of cloud and patchy rain will move east, reaching Wales and northern England in the afternoon. Ireland will be sunny. South-east Spain and Portugal will continue sunny with maximum temperatures between 22C and 30C. Italy and the western Balkan states will have thunder showers. The eastern Balkan states will be hot and sunny.

### Five-day forecast

On Thursday and Friday, most of the continent will turn warmer and sunnier. However, eastern Europe will become cooler with frequent thunder showers. Beginning Thursday, showers or outbreaks of rain will move into the UK. Most of the continent will turn unsettled and cooler again during the weekend. Spain and Portugal will remain dry and sunny with maximum temperatures reaching 28C-37C.




Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | sun | 38 |
| Accra | shower | 30 |
| Algiers | fair | 24 |
| Amsterdam | fair | 20 |
| Athens | sun | 32 |
| Atlanta | sun | 34 |
| B. Aires | sun | 10 |
| B.ham | drzzl | 18 |
| Bangkok | cloudy | 36 |
| Barcelona | fair | 22 |
| Beijing | fair | 30 |
| Belfast | fair | 18 |
| Belgrade | thund | 24 |
| Berlin | cloudy | 17 |
| Bermuda | shower | 26 |
| Bogota | fair | 18 |
| Bombay | shower | 31 |
| Brussels | fair | 21 |
| Budapest | fair | 23 |
| C.hagen | fair | 20 |
| Cairo | sun | 37 |
| Cape Town | fair | 19 |
| Caracas | cloudy | 30 |
| Cardiff | drzzl | 17 |
| Casablanca | fair | 26 |
| Chicago | fair | 29 |
| Cologne | fair | 20 |
| Dakar | fair | 31 |
| Dallas | fair | 34 |
| Delhi | shower | 29 |
| Dubai | sun | 38 |
| Dublin | sun | 19 |
| Dubrovnik | fair | 27 |
| Edinburgh | fair | 18 |
| Faro | sun | 29 |
| Frankfurt | cloudy | 18 |
| Geneva | fair | 21 |
| Gibraltar | sun | 25 |
| Glasgow | drzzl | 18 |
| Hamburg | fair | 19 |
| Helsinki | shower | 17 |
| Hong Kong | shower | 30 |
| Honolulu | fair | 31 |
| Istanbul | sun | 31 |
| Jakarta | fair | 32 |
| Jersey | fair | 20 |
| Karachi | fair | 34 |
| Kuwait | sun | 43 |
| L. Angeles | fair | 21 |
| Las Palmas | fair | 26 |
| Lima | cloudy | 18 |
| Lisbon | sun | 30 |
| London | fair | 24 |
| Lux.bourg | fair | 20 |
| Lyon | fair | 22 |
| Madeira | fair | 24 |
| Madrid | fair | 25 |
| Majorca | fair | 24 |
| Malta | fair | 27 |
| Manchester | cloudy | 10 |
| Manila | thund | 31 |
| Melbourne | shower | 14 |
| Mexico City | shower | 23 |
| Miami | fair | 33 |
| Milan | fair | 22 |
| Montreal | fair | 21 |
| Moscow | fair | 20 |
| Munich | cloudy | 18 |
| Nairobi | cloudy | 22 |
| Naples | thund | 25 |
| Nassau | fair | 32 |
| New York | sun | 28 |
| Nice | fair | 24 |
| Nicosia | sun | 36 |
| Oslo | fair | 22 |
| Paris | fair | 23 |
| Perth | rain | 20 |
| Prague | cloudy | 18 |
| Rangoon | rain | 30 |
| Reykjavik | shower | 10 |
| Rio | fair | 26 |
| Rome | fair | 24 |
| S. Frsco | fair | 19 |
| Seoul | fair | 29 |
| Singapore | cloudy | 32 |
| Stockholm | sun | 20 |
| Strasbourg | fair | 21 |
| Sydney | fair | 16 |
| Tangier | windy | 28 |
| Tel Aviv | sun | 32 |
| Tokyo | rain | 25 |
| Toronto | fair | 23 |
| Vancouver | fair | 21 |
| Venice | shower | 21 |
| Vienna | cloudy | 16 |
| Warsaw | shower | 18 |
| Washington | sun | 29 |
| Wellington | shower | 13 |
| Winnipeg | shower | 26 |
| Zurich | fair | 10 |





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FINANCIAL TIMES
# COMPANIES & MARKETS



Wednesday June 26 1996



## IN BRIEF

### Shares in Allianz jump on 52% rise

Shares in Allianz raced ahead after the German insurance group announced a 52 per cent rise in net profits to DM2.02bn ($1.3bn) helped by the favourable impact on its tax bill of losses carried forward from its east German property and casualty subsidiary. The shares closed DM68, or 2.7 per cent, higher at DM2,611, outpacing the overall market which was up only 0.3 per cent, with the Dax index reaching a record 2,573.9 points. Page 16

**Fiat seeks $1bn credit facility**
Fiat, the Italian vehicle and industrial group, has asked Citibank International and Deutsche Bank Luxembourg to organise a $1bn multicurrency credit line, its largest ever international credit facility. The company holds its annual shareholder meeting in Turin today. Page 16

**Axa sets price for New York listing**
Axa, the French insurance group, announced that its shares to be listed on the New York Stock Exchange are to be priced at FFr274 each. Page 16

**Crédit Lyonnais in securitisation issue**
Crédit Lyonnais, the French state-owned bank, announced a FFr5bn ($960m) securitisation issue against one of its specialised loan portfolios in the largest such operation yet launched in the country. Page 16

**Dickson Concepts acquires Seibu stores**
Dickson Concepts, the Hong Kong-based luxury wholesaler and retailer, is to take control of the Seibu department stores in Hong Kong and Shenzhen, in southern China, for HK$180m (US$23m). Page 20

**St George bid for Metway in the balance**
Shares in Metway Bank, the Australian regional bank, slid 9 cents to A$4.51 as analysts decided the chances of the Sydney-based St George Bank succeeding with its A$810m (US$640m) bid were diminishing. Page 20

**Prudential to float off reinsurance arm**
Prudential, the UK's largest life assurance group, joined the accelerating process of consolidation in the UK financial services industry, announcing it would float off its Mercantile & General reinsurance subsidiary and expand its presence in life assurance and retail banking. Page 21; Lex, Page 14

**Psion plans £234m bid for Amstrad**
Psion, the UK handheld computer manufacturer, plans to pay £234m ($358m) in shares for Amstrad, the UK computer and digital telephone group. The two companies confirmed they were in discussions that could lead to Psion offer for Amstrad. Page 22; Lex, Page 14; Editorial Comment, Page 13

**Gold rush**
Production of gold jewellery in Asia more than quadrupled between 1986 and 1995, Mr Michael Kile, manager of business development for Gold Corporation, told delegates at the Financial Times World Gold Conference. Page 23

### Companies in this issue



### Market Statistics



### Chief price changes yesterday

| | | | |
|---|---|---|---|
| **FRANKFURT (DM)** | | | |
| Rises | | | |
| Allianz | 2611 | + | 68 |
| VEW | 518.5 | + | 8.5 |
| Falls | | | |
| Asko | 1134 | - | 31 |
| Daimler Benz | 833 | - | 9 |
| Goldschmidt | 578 | - | 12 |
| Kaufhof | 581 | - | 17 |
| **NEW YORK ($)** | | | |
| Rises | | | |
| Boston Sci | 43¼ | + | 1½ |
| Hercules | 57⅝ | + | 2⅝ |
| ITT Corp | 64⅝ | + | 2¼ |
| Falls | | | |
| Amerit | 43¾ | - | 3⅞ |
| Nycomed Ass | 14⅞ | - | 3⅜ |
| Park Electro | 18⅜ | - | 3 |
| **LONDON (Pence)** | | | |
| Rises | | | |
| DBS | 350 | + | 100 |
| Norbain | 538 | + | 13 |
| Vega | 308 | + | 20 |
| Falls | | | |
| CPL | 448 | - | 32 |
| Games Workshop | 442 | - | 23 |
| Scotia Hlds | 140 | - | 38 |
| **TORONTO (C$)** | | | |
| Rises | | | |
| BAA | 10.00 | + | 0.75 |
| Gandalf Techs | 11.10 | + | 0.85 |
| Malcor Drel | 11.75 | + | 0.90 |
| Falls | | | |
| Kingsway Fin | 15.10 | - | 0.90 |
| Mobidim B | 6.00 | - | 1.00 |
| Pointer Expl | 1.32 | - | 1.34 |
| **PARIS (FFr)** | | | |
| Rises | | | |
| Air Liquide | 925 | + | 16 |
| Chargeurs Int | 238 | + | 29.2 |
| Cred Lyon | 129.4 | + | 15.5 |
| Imetal | 745 | + | 17 |
| Peugeot | 713 | + | 10 |
| Falls | | | |
| Eridania B-Say | 802 | - | 18 |
| **TOKYO (Yen)** | | | |
| Rises | | | |
| Long Term Cdt | 881 | + | 21 |
| Nippon Sanso | 540 | + | 11 |
| Toyo Kanetsu | 548 | + | 19 |
| Falls | | | |
| Brother Ind | 863 | - | 16 |
| Daiwa Bank | 771 | - | 12 |
| Tosi | 894 | - | 35 |
| **HONG KONG (HK$)** | | | |
| Rises | | | |
| Dickson Con | 9.95 | + | 0.30 |
| Eu Yan Sang | 1.91 | + | 0.23 |
| Wing Hang Bk | 30.80 | + | 1.30 |
| Falls | | | |
| JF Asia Sel | 12.30 | - | 0.50 |
| Nanjing Panda | 1.32 | - | 0.14 |
| Varsha Systems | 1.27 | - | 0.10 |
| **BANGKOK (Baht)** | | | |
| Rises | | | |
| Central Pat | 109.00 | + | 4.00 |
| Nippon Pack | 97.00 | + | 3.50 |
| Post Publish | 90.00 | + | 5.00 |
| Falls | | | |
| Boutique NCity | 39.25 | - | 4.00 |
| Quality-W | 43.00 | - | 5.00 |
| Sub Sri Thai | 40.00 | - | 4.00 |

New York & Toronto prices at 12.30

# Nycomed loses 23% after warning

By Hugh Carnegy in Stockholm

Shares in Nycomed, the Norwegian pharmaceuticals group, plunged almost 23 per cent yesterday after the company warned that profits this year would be well below market expectations.

The earnings reverse, caused by fierce price competition in the US for X-ray contrast agents, its biggest product line, reignited speculation that Nycomed could become a takeover or merger target.

*Nycomed, with sales last year* of NKr8.4bn ($1.3bn), has only been an independent company just over a month. It was demerged in May from Hafslund, an energy producer, in a move which itself followed the collapse last year of a planned merger with Ivax, the US pharmaceutical company, following objections by a group of shareholders to foreign intervention.

Nycomed's most-traded A-share lurched downwards NKr28 to close at NKr95 after the warning. The shares had traded as high as NKr148 since the demerger.

The company said price pressures in the US had intensified *since the first quarter*, when Nycomed's main diagnostic imaging division suffered a fall in *operating profits from NKr607m* to NKr553m. It said full-year profits this year would be "closer to the 1994 level than the 1995 level". Analysts had expected earnings per share to reach as high as NKr14.5, against last year's NKr11.25. In 1994, earnings per share were NKr7.55.

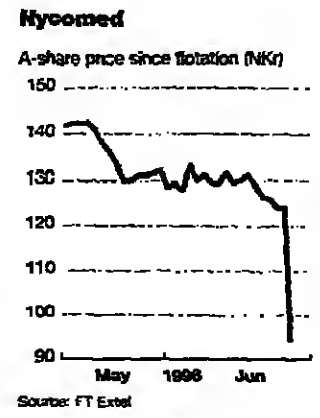
Nycomed has experienced a tough fight in the US with competitors such as Bracco and Mallinckrodt of the US and Schering of Germany, in the market for agents which are injected into patients to enhance X-ray images and improve diagnosis.

The Norwegian company has a leading 35 per cent share of global pharmaceutical medical imaging agents. Medical imaging accounts for 60 per cent of group turnover and last year contributed 85 per cent of Nycomed's NKr2bn operating profit.

But battles for market share and fears that producers of non-patented, generic agents may enter the market have led to price cuts in the US.

The latest events are likely to be seen by Nycomed's management as evidence that their proposed merger with Ivax would have strengthened the company against market pressures.

Lex, Page 14; World Stock Markets, Page 43




# Eurotunnel investors marshal blocking vote

By Andrew Jack in Paris and Geoff Dyer in London

Associations representing individual investors in Eurotunnel, the troubled Anglo-French operator of the Channel tunnel link, believe they may have enough support to block the group's restructuring plan.

Organisers from three separate groups gathering proxy votes from shareholders claimed yesterday they had collected more than 56m. There are nearly 920m Eurotunnel shares and, based on previous voting attendance at shareholder meetings, the blocking group could be strong enough to vote down resolutions.

Ms Sophie L'Hélias, a corporate governance consultant, has gathered more than 40m votes through an exercise co-ordinated by Investir, a French investors' magazine, which encouraged readers to complete in her name proxy forms it published.

Mr Christian Cambier, head of the 3,000-strong Association of Eurotunnel Shareholders, which organised a mass rally of investors in France last month, said he had gathered a further 8m votes which he had assigned to Ms L'Hélias. Separately, Adacte, the Association for the Defence of Eurotunnel Shareholders, claimed a further 8m votes from members, who have given their proxies to its chairman, Mr Albert Jauffret.

However, divisions between the associations could threaten a united front in the Eurotunnel annual general meeting on Thursday afternoon.

Mr Jauffret, who has collected proxies in his own name and taken a more critical stance towards Eurotunnel, yesterday threatened to call for the resignation of a number of the group's directors, whom he accused of holding conflicts of interest.

The other groups want to find a way to demonstrate their strength in an effort to ensure that the degree to which they are penalised by creditor banks in the current restructuring is minimised. Mr Cambier said he did not want to propose radical changes in the board of Eurotunnel at the moment.

The real test will come when Eurotunnel is required to hold an extraordinary general meeting and present a detailed restructuring plan for approval.

Eurotunnel refused yesterday to say how many proxies it had solicited on its own behalf.

Following speculation that the UK government had refused to extend Eurotunnel's franchise, the department of transport said yesterday it had not yet received a formal proposal from Eurotunnel or the French government about an extension. It said it would wait to see any official application before deciding whether or not it was in the public interest.

The issue was raised by Mr Jacques Chirac, the French president, during his state visit to the UK last month.

## Quelle moves to capture a niche and remain leader in Germany's mail order sector

# Karl Lagerfeld has designs on democratic luxury

By Judy Dempsey in Berlin

Quelle, Germany's large mail order company re-established after the second world war to provide cheap, quality clothes for Germans, yesterday moved up-market by signing a contract with Mr Karl Lagerfeld, the luxury designer.

This is the first time the group has attracted an international designer and shows how much Quelle – and Germany – has moved away from the immediate post-war years when Germans in their war-torn country could hardly afford a jacket.

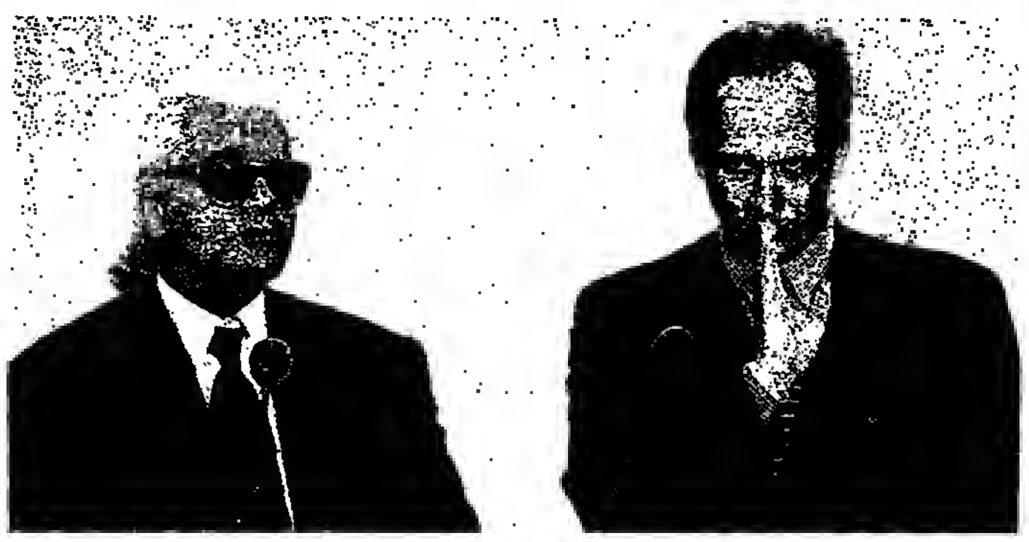
However, it also continues a philosophy set out by Mrs Grete Schickendanz, Quelle's founder who died two years ago, who always believed that her mail order service should provide affordable quality as well as move with the times.

Mr Lagerfeld was yesterday more than happy to continue this philosophy. Waving a small black fan and sporting dark glasses, he told enthusiastic Berliners this was a great opportunity to "democratise luxury".

His audience was given a sample of Lagerfeld's 30 designs which will be included in Quelle's autumn and winter catalogues.

As expected, the colours are bright, the form is chic and the variety of clothes spans day and evening wear.

And true to Mrs Schickendanz's concern for value for money, the clothes will sell from DM65 to DM795 ($43-$520) and will clothe the slim to the well-built.



Reuters

Chic on the cheap: Fashion designer Karl Lagerfeld (left) with Steffen Stremme, chairman of Quelle

Quelle, which last year had a turnover of more than DM12bn worldwide, with the German market accounting for DM8bn of sales, is confident of success particularly as Mr Lagerfeld was involved in all the stages of the design and launch of the collection.

"He did everything – from choosing the material to doing the photos and layout," said Mr Erich Jeske, a Quelle official.

The group is confident it will capture a niche in Germany's mail order market, an increasingly competitive sector in which Quelle has managed to remain market leader largely through diversifying, expanding in eastern Europe and tapping Germany's nascent home television shopping market.

Its catalogues, the size of a telephone directory, sell anything, from a small gas cooker to... a Lagerfeld dress.

# Michael Price sells Heine Securities

By Maggie Urry in New York

Franklin Resources has agreed to buy Heine Securities for $615m in cash and shares, before a possible $193m performance bonus, in a further consolidation in the US mutual fund industry.

The deal follows Monday's announcement of Morgan Stanley's agreement to acquire Van Kampen American Capital.

Heine advises the Mutual Series Fund group, whose investors must approve the transaction. It is owned by Mr Michael Price, the outspoken investment manager who last year bought a 8 per cent stake in Chase Manhattan – a move which, in part, led to the merger of that bank with Chemical Bank.

Mr Price, 44, has agreed to stay with Franklin for at least five years and will invest $150m of the sale proceeds in the Mutual Series Fund, retaining at least $100m of that investment for five years.

The acquisition of Heine will add $17bn to Franklin's assets under management, taking the total to $162bn. Many mutual fund groups are seeking to expand and broaden their range of assets under management in the face of increasing competition in the market.

The deal will widen the range of mutual funds Franklin can offer investors. It is best known for its fixed income funds, and, since the acquisition of Templeton Galbraith & Hansberger in 1992, its international equity funds.

Heine's strength is in US equities. Its four funds have a strong investment record and each has a five-star rating from Morningstar, the highest accorded by the firm which ranks mutual funds by performance.

Heine, also feeling the lack of a broader product range, is launching a European equity fund next month.

Franklin aims to increase sales of Heine's funds by selling them through brokers. Franklin's existing funds are sold through brokers, and investors in them pay a commission. Heine's funds are sold directly to the public with no commission charged – an arrangement that would continue after acquisition, said Mr Greg Johnson of Franklin.

Under the terms of the deal, Franklin will pay Mr Price $550m in cash and issue 1.1m Franklin shares to him. Franklin's shares rose $1½ to $59¼ in morning trading.

## Barry Riley

# Secure home sought for the 'orphan' billions

British actuaries are conducting their own peculiar version of the stakeholder debate. It is about how to share out "orphan" assets between shareholders and policyholders – a problem that arises in proprietary life assurance companies that sell with-profits policies.

A professional working party has determined that the quaintly named orphan estate should be redefined as the inherited estate (IE). These ownerless assets in life company balance sheets arise mostly from actuaries' mistakes dating back several decades.

One important source relates essentially to the 1950s when life companies began investing in equities rather than fixed interest securities – but their income-based methodology did not catch up for about 20 years.

Nowadays, with-profits policies are awarded bonuses in line with calculations of asset shares. But there was an interim period in which actuaries thought they were being properly cautious in tucking away "temporary" capital gains as extra reserves. Yesterday's prudence, however, has become today's embarrassment.

Thus, maturing with-profits policies in the 1960s and 1970s often did not receive their full share of investment growth. These unallocated surpluses, bolstered by fat investment returns, have become seriously large. The Prudential's inherited estate may be £2.5bn ($3.8bn); Legal & General last year agreed with the Department of Trade and Industry over the reclassification of £1.5bn.

On Monday evening the members of the Institute of Actuaries debated the issue. Billions of pounds have strayed into no-man's land. They belong, in truth, to old policyholders, but those people are untraceable and probably dead. In mutual companies, the present-day policyholders are the only available beneficiaries; in proprietary companies, a carve-up between policyholders and shareholders has to be arranged. With billions at stake, it could get nasty.

With fevered searches for unearned windfalls at building societies and certain mutual life offices, the actuaries are concerned that carpetbagging shareholders might get the better of the more passive and poorly informed policyholders.

> The prudence of yesterday has become today's embarrassment for actuaries

At the centre of the debate is the loose nature of with-profits contracts – which depend upon obscure actuarial judgments – and the woolly concept of the policyholders' reasonable expectation (PRE) in life assurance legislation. The threat hangs over the actuaries that the courts will eventually seize the chance to codify PRE less flexibly.

During the past few years, the life offices, prompted by the investment regulators, have begun publishing with-profits guides which clarify the contracts somewhat. But by their very nature, they rely on smoothing and cross-subsidies.

Recently, the progressive reductions in reversionary bonuses have created a difficult climate. Two offices, Pearl and Eagle Star, are warning 50,000 home buyers that their with-profits savings plans will probably not pay off their mortgage loans.

Monday's session revealed some deep splits of opinion. Many actuaries do not agree with the simplest approach of dividing the orphan assets according to the 90:10 ratio that applies to normal investment surpluses in the with-profits funds of most proprietary companies.

It can be argued that once the reasonable expectations of policyholders have been satisfied, the balance is attributable to shareholders – who must take the rough as well as the smooth. But the arguments are never simple. Several offices have apparently begun nibbling at the IE by maintaining their recent and current bonuses at unrealistically high levels. If so, have they already raised the PRE in those cases?

Actuaries are wrestling with professional issues... how can they escape the blame for this mess? On the other hand, do actuaries have a moral duty to protect policyholders?

The more political seek an easy way out. Perhaps the IE can be diverted to finance the fundamental business re-engineering that most life offices require. Both policyholders and shareholders might benefit from that.

But all agree that future methodology must be watertight. The "unwitting plunder of past generations", as one actuary put it, must not be repeated.

# Allianz ahead 52% at DM2.02bn

By Andrew Fisher in Frankfurt

Shares of Allianz raced ahead yesterday after the German insurance group announced e 52 per cent rise in net profits to DM2.02bn ($1.31bn), helped by the favourable impact on its tax bill of losses carried forward from its east German operation.

Although Allianz said in February that earnings would rise faster than pre-tax profits – whicb rose by 34.5 per cent to DM3.04bn – analysts were etill surprised by the sharp increase in earnings per share from DM56.60 to DM87.20. The loss carry-forward from Deutsche Versicherungs, the east German property and casualty subsidiary, was DM1.4bn.

The shares closed up DM68, or 2.7 per cent, at DM2,611, outpacing tbe overall market which was up by only 0.3 per cent, with the Dax index of 30 blue chips reaching a record 2,572.9. Allianz, with extensive stakes in German banks and industry, is a main component of the Dax.

The company said the quality of its underwriting result improved considerably. It has improved its insurance portfolio by weeding out high-risk business and concentrating on profitable lower-risk clients.

The positive claims experience continued in the first quarter of 1996, while investment income benefited from continued favourable capital market conditions. But premium income rose only moderately in the first quarter, with neither the economy nor customer demand showing much growth.

Premiums have been held down as claims have stabilised.

Last year's premium income was 7 per cent higher at DM70.5bn, mostly due to the first-time inclusion of Elvia of Switzerland and Lloyd Adriatico of Italy. The rise would have been 9 per cent but for the stronger D-Mark which sliced DM1.6bn from the total.

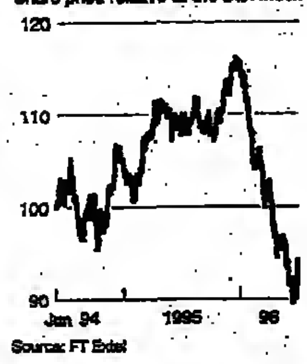
The underwriting result showed a loss of DM685m after the payment into claims equalisation reserves of DM1.2bn, against DM800m in 1994. However, under previous eccounting regulations, the underwriting result would have moved from a DM348m loss to DM88m profit. The new rules mean pension provisions and office equipment depreciation now have to be charged to the underwriting account.

The non-underwriting result rose from DM3.39bn in 1994 (adjusted for the new accounting regulations) to DM3.73bn, helped by improved capital market trends. Lower interest rates and rising share prices led to reduced write-downs on the securities portfolio.

Total income from investments – some DM250bn – increased, although falling interest rates reduced yields on new investments.

Allianz

Share price relative to the Dax index




Source: FT Extel

# Crédit Lyonnais in securitisation move

By Andrew Jack in Paris

Crédit Lyonnais, the French state-owned bank, yesterday announced a FFr5bn securitisation issue against one of its specialised loan portfolios. It is the largest such operation yet launched in the country.

The fund, named Titraphar 06-96, comprises loans made to pharmacists by the bank's interfimo subsidiary, which is one of the leading institutions for providing credit to the liberal professions in France, such as lawyers and doctors.

It will help Crédit Lyonnais in its efforts to cut costs. The bank is facing growing financial difficulties against the backdrop of intense competition in the French banking sector. The bank also wants to improve the efficiency of its asset management.

The fund will be split into four parts, of which three will be quoted on the French stock exchange.

It will be guaranteed by Crédit Lyonnais and Bayerische Vereinsbank, and has been classified as AAA by the leading credit rating agencies.

Crédit Lyonnais said the new fund brought to FFr15bn ($2.89bn) the total amount of securitisation it has undertaken. This follows FFr6.1bn in 1994 and a further FFr4bn during last year.

In addition, the bank is considering securitising about FFr40bn of the loan it made to EPFR, a company underwritten by the French state as part of the bank's restructuring plan agreed last year.

Under that plan, FFr135bn in assets were removed from Crédit Lyonnais' balance sheet for sale over the next few years through an independently-managed organisation called Consortium des Réalisations which deals with EPRF.

The bank said that securitisation of loans to pharmacists was particularly attractive because of the tight regulations and the security of the assets against which the loans are made.

However, it said it would also consider securitisation of loans to other liberal professions in the future.

Details, Page 24

# Axa sets price for NY listing

By Andrew Jack

Axa, the French insurance group, yesterday announced that its shares to be listed on the New York Stock Exchange are to be priced at FFr274 each. Trading in the shares began yesterday.

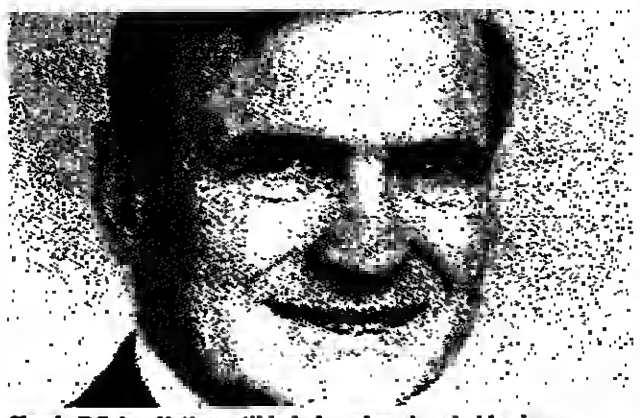
Strong demand has meant the number of shares to be offered has been increased from 3.5m initially planned to at least 4m.

Trading will be in the form of American Depositary Shares, for which there are two for each share in Axa SA, the quoted French holding company. The ADSs opened up $⅛ at $26⅞

Axa said 55 per cent of the shares had been offered in tbe US market, with tbe remainder in other markets outside France, inclnding a substantial proportion in Europe.

The transaction will result in a post-tax FFr110m ($21.2m) gain.

Mr Cleude Bébéar, Axa chairman, said: "Our listing will enable us to broaden our international shareholder base, to raise our profile in international capital markets and to gain access to the world's largest and most advanced financial markets."



Claude Bébéar: listing will help broaden shareholder base

Mr Henri de Castries, one of the group's directors, said that Axa always pursued an "opportunistic" epproach to potential acquisitions and financing projects, bnt there were no immediate plans to raise funding in the US as a result of the quotation.

Axa has also expressed interest in seeking listings in London, Tokyo and other markets in which it has important activities, but Mr de Castries said no decision had yet been taken.

He said the group had not faced any particular investor concern during the marketing of the US shares over the discrepancy in net profits for 1995 between FFr2.7bn under French and FFr324m under US accounting standards.

The investment banks advising on the listing were Goldman Sachs and Donaldson, Lufkin & Jenrette, which is majority-owned by Axa.

The announcement came on the day that Scor, the French reinsurance group, said it planned to seek a listing on the New York Stock Exchange.

# Record international borrowing for Fiat

By Andrew Hill in Milan

Fiat, the Italian automotive and industrial group, has appointed Citibank International and Deutsche Bank Luxembourg to organise a $1bn multi-currency credit line, its largest ever international credit facility.

Proceeds of the new credit line will be used partly to redeem bonds due to expire shortly, and partly to refinance a five-year $400m credit lime negotiated in November 1994.

The new credit line will last seven years, longer than any previous Fiat credit facility on international markets, and should allow it to service its loans at a lower cost than the old $400m facility.

The company is to hold its annual shareholder meeting today in Turin, the first chaired by Mr Cesare Romiti, who moved from chief executive to chairman when Mr Gianni Agnelli stepped down earlier this year. Mr Romiti will be flanked by the new chief executive, Mr Paolo Cantarella, former head of Fiat's core automotive division.

Mr Roberto Testore, Mr Cantarella's replacement at Fiat Auto, underlined the challenge facing Fiat, when he warned on Monday that the Italian car market was still flat, and that the European market was only expected to rise 3 per cent, excluding Italy.

In the first quarter of this year, Fiat's pre-tax profits fell 24 per cent on the equivalent period last year as profitability in Brazil was hit and the lira continued to strengthen.

Cesare Romiti: to address first annual meeting as chairman

In 1995, the group's net profit doubled to L2,147bn ($1.4bn), confirming its recovery from 1993's record losses.

Fiat is aiming to keep up the rhythm established during the recovery years by producing 15 new models between 1997 and the end of the century, backed by further expansion into emerging markets.

Its new credit line will be arranged at 16 basis points above the London interbank offered rate, whereas the old facility was at 30 points above Libor. The utilisation fee will be set at 2 basis points, if Fiat uses more than e third of the total amount, and 4 basis points if it used more than two-thirds. The commitment fee – paid if the credit line is not used – will be eight basis points a year.

Fiat said the credit could be used in all convertible currencies, including the Ecu, and, as soon as it is available, the Euro. The credit line will be set np through the group's wholly owned subsidiary Fiat Finance & Trade.

## NEWS DIGEST

# Volvo executive to head NedCar

Mr Christian Dewulf, currently managing director of Volvo's Ghent production base in Belgium, will next week become chief operating officer of NedCar, the joint venture grouping the Dutch government, Volvo of Sweden and Japan's Mitsubishi Motors. Mr Dewulf, a Belgian, will take over in January as chief executive, replacing Mr Frans Sevenstern, 56, who is leaving the company. Mr Sevenstern said yesterday the change marked the end of a five-year transformation of NedCar, which produces 160,000 vehicles a year, into a pure production unit. It has already shed the components and marketing divisions which accompanied its former existence as a tie-up between Volvo and Daf, the defunct Dutch carmaker.

Mr Sevenstern described his 46-year-old successor as "a real production man" now needed for the operation, which produces the Volvo S40/V40 and Volvo 400 series as well as the Mitsubishi Carisma. Mr Masaya Arinishi, 58, is joining from a MMC plant in Japan as NedCar vice-president. The two current vice-presidents, Mr Curt Germundsson and Mr Norio Takehara, are returning respectively to Volvo and MMC.

The streamlined structure, under which the management board is being abolished to give more power to Mr Dewulf, was described by trade unions as a "cultural revolution". They fear the moves may precede a withdrawal by the stats from the venture, perhaps by selling its one-third stake to the two industry partners. *Gordon Cramb, Amsterdam*

## Swedbank buys stake in rival

Swedbank, Sweden's second-largest bank measured by asset value, yesterday bought a near 5 per cent stake in Föreningsbanken, the country's fifth-biggest bank, and said it believed an eventual merger would benefit both groups. The move followed abortive talks late last year on co-operation between the two banks.

Swedbank, known as Sparbanken Sverige domestically, said it had no immediate plans to buy more Föreningsbanken stock. It bought 12m Föreningsbanken A shares, or 4.98 per cent of the capital and voting stock – a stake worth almost SKr290m ($44m) at current market prices. But it made clear the purchase of the stake was a strategic move to position the group for an anticipated new round of restructuring in the Swedish banking sector following its recovery from crippling loan losses in the early 1990s.

Föreningsbanken, which has the Federation of Swedish Farmers as its biggest shareholder, has long been the subject of merger speculation. But it immediately rejected Swedbank's renewed overtures, saying it was determined to remain independent. "The board of directors reached the conclusion that co-operation with Sparbanken would not be beneficial to our customers and shareholders. No discussions are currently being held with Sparbanken, nor are any such discussions planned," the bank said.

Swedbank, with assets of SKr467bn at the end of last year, is concentrated on the Swedish retail banking sector, where it dominates the mortgage market through its subsidiary Spintab. But it is fighting a tough battle for market share, especially with Nordbanken, et e time of increasing competition in the financial services sector. *Hugh Carnegy, Stockholm*

## Foreign orders lift Hochtief

Hochtief, the German construction group, benefited from a big increase in orders from abroad in the first five months of this year. Mr Hans-Peter Keitel, chairman, said a strong performance in foreign markets had more than compensated for exceptionally weak domestic conditions, where the effects of e weak economy were exacerbated by a cold winter. The company's total construction output rose 9.7 per cent to DM4.4bn ($2.9bn) in the first five months of 1996, compared with the corresponding period a year ago.

The Essen-based company also announced an increase in both incoming orders and order backlogs in the period. Incoming orders stood at DM5.1bn, up 15 per cent, and the order backlog as of May 31 was DM11.7bn, a rise of 8.9 per cent. Mr Keitel, Hochtief's chairman, told the group's annual shareholders' meeting that the five-month figures did not include a DM2.4bn commission, won in June, for the construction of a new airport for Athens. He noted that this would lead to for a further rise in orders at the group's next interim report.

Domestic incoming orders in the first five months were 9.3 per cent lower than a year ago. However, new orders from abroad were up 81 per cent on the corresponding period in 1995. Foreign business now accounts for half of total outstanding orders, which stood at some DM11.7bn at the end of May. The chairman added that it was "too early" to give a forecast for the whole of 1996. Hochtief raised its construction output in the domestic market by 3.6 per cent in the period, despite the sectoral weakness. However, foreign output grew by a much faster 21 per cent from year-earlier levels. *AP-DJ, Frankfurt*

■ Philips, the Dutch electronics group, has expanded its UK interests through the purchase of Leisuresoft, a distributor of computer peripherals and entertainment software. The company will be part of Philips Media, which in the past year has bought similar operations in France and Germany but was seeking to strengthen its UK sales team. Mr John Hawkins, who as Philips Media vice-president will head the UK operations, said yesterday the acquisition was "a means of strengthening our position in the competitive UK market". No price was disclosed for Leisuresoft, which was founded in 1983. *Gordon Cramb*

# BZW-led group to handle Polish copper privatisation

By Christopher Bobinski in Warsaw

The privatisation of KGHM, the Polish copper producer – the largest planned offer of stock in central Europe since the fall of communism – is to be handled by a consortium made up of BZW, Union Bank of Switzerland and the local Wielkopolski Bank Kredytowy.

The BZW consortium is believed to have offered to underwrite the deal, which would value KGHM at more than $2bn, for a fee of only 2.3 per cent, in the latest example of narrowing margins in equity offerings.

The decision, announced yesterday by Poland's privatisation ministry, puts the sale of 51 per cent of KGHM's equity on track for the first quarter of next year, even though the price of copper on the London Metal Exchange has stabilised at a 2¼-year low, jeopardising the prospect of profits for the combine, which produces around 5 per cent of world output of the metal.

BZW and its partners were chosen from eight short-listed bidders which included Merrill Lynch, CSFB and SBC Warburg. The winning bid was reported to have carried the most competitive price offer overall in a contest in which Mr Wieslaw Kaczmarek, the privatisation minister, said the "quality of the proposals was equal".

According to the government and management at KGHM, which reported a 481.9m zlotys ($176m) net profit last year, the privatisation would see around 10 per cent of the equity sold on the Warsaw Stock Exchange with 15 per cent reserved for the 30,000 workforce.

Another 25 per cent would be placed abroad through Global Depositary Receipts.

KGHM's profits last year were buoyed by a copper price of $3,000 a tonne, while the combine's break-even point is reported to be $1,800 a tonne.

● Subscriptions for the Hungarian offering of Global Depositary Receipts in Cofinec, the central European packaging group, closed on Monday after only one day due to high demand, writes Kester Eddy in Budapest.

The total of 90,000 GDRs was more than twice oversubscribed, with the tranche of 30,000 GDRs allocated to Hungarian institutional investors ettracting more than 120,000 applications.

The offering had been planned to last five days.

Nevertheless, for Hungarian domestic investors it was unusnal to pay cash in advance, with no discount or "additional incentives" such as credit or part-payment in compensation coupons, brokers said. "We haven't seen the queues for an offer for a long time either," one added.

The GDRs were offered to Hungarian investors at Ft6,425 each, equivalent to the initial public offering price of $42.35 per GDR.

The Hungarian offering, representing 3.8 per cent of the enlarged share capital, has raised $4m for Cofinec before expenses, and the IPO $95m, consisting of $35m for Cofinec and $60m for selling shareholders. Listing on the Budapest Stock Exchange is expected in mid-July.

# Lada manufacturer lifts production

By John Thornhill in Moscow

Avtovaz, tbe Ruesian manufacturer of Lada cars, remains in a weak financial position after recording e net loss of Rbs2,020bn ($398m) last year, but is slowly improving its productivity and expanding its production.

The carmaker, which was formerly run by Mr Vladimir Kadannikov, the first deputy prime minister in charge of the economy, experienced severe cash flow difficulties last year and still owes Rbs2,000bn, mainly in back taxes.

But Avtovaz officials said they had successfully eliminated wage arrears among the company's 110,000 employees at its home town of Togliatti in central Russia. Last year, the cash flow problems were so severe that many workers did not receive their wages for several months.

Avtovaz increased its output last year by 18 per cent to 616,144 vehicles, of which it exported 174,000, mainly to Europe and south America. But the company plans to cut its exports to 110,000 this year, claiming that the reletive strength of the rouble has made its exports unprofitable.

Like many Russian enterprises built under the Soviet planned economy, Avtovaz appears to be heavily overstaffed but has been reluctant to cut its cost base.

Its comparatively high labour costs and ageing models have meant its cars have become increasingly uncompetitive with foreign imports. Despite high import tariffs, about 400,000 foreign cars were sold in Russia last year, according to the Ministry of Economics.

Seven of the 10 models currently manufactured by Avtovaz were designed in the 1970s and only three heve been developed since 1985.

The company is pinning high hopes on its new Vaz-2110 model and plans to manufacture 16,200 this year. But Avtovaz would appear to need a large injection of fresh capital to manufacture the car on a mass scale, and has been unable to conclude any sizeable joint venture with e foreign partner.

Avtovaz said its pre-tax profits amounted to Rbs2,210bn last year, compared with a Rbs53.1bn loss in 1994. But the company did not release sales figures and does not intend to pay e dividend.







## LEGAL NOTICES

In the High Court of Justice No 001715 of 1996
Chancery Division
Companies Court

IN THE MATTER OF PENNA PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 5th June 1996 confirming the reduction of the capital of the above-named Company from £500,000 to £226,087.50 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 6th June 1996.

Dated this 26th day of June 1996

LAWRENCE GRAHAM
190 Strand
London WC2R 1JN
Solicitors for the above-named Company
Tel: 0171 379 0000
Ref: AXF

LGL SECURITIES LIMITED
LGL NOMINEES LIMITED
(BOTH IN CREDITORS VOLUNTARY LIQUIDATION)

The Joint Liquidators of LGL Securities Limited and LGL Nominees Limited are putting forward a proposal for the apportionment and distribution of certain assets held on behalf of the clients of LGL Securities Limited and LGL Nominees Limited by those companies, their agents or their nominees as at 30 November 1994 ("the Proposal"). Pursuant to an order made by The Honourable Mr Justice Lindsay on Monday 17 June 1996, the Proposal will be considered by the Court at a hearing on 22 July 1996, in order to determine whether directions should be given for the implementation of the Proposal.

All clients or former clients of the above companies known to the Joint Liquidators have been contacted directly by letter and given details of the Proposal. It is important that any current or former client of LGL Securities Limited or LGL Nominees Limited who has not yet received information regarding the Proposal contact the Joint Liquidators immediately at the address below.

M E Mills
Joint Liquidator of LGL Securities Limited
Joint Liquidator of LGL Nominees Limited
Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU
Tel: 0171 928 2000

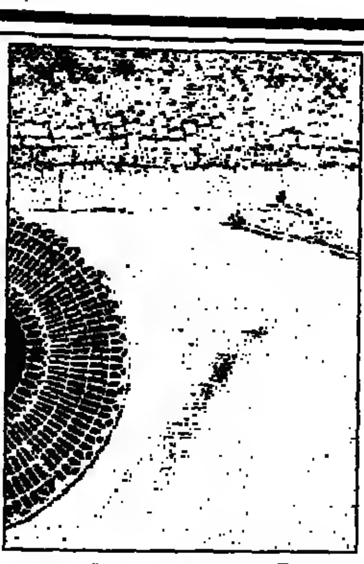
Other contacts: Harriet Looper or Ray Anderson at the above address

## BUSINESSES FOR SALE

Appear in the Financial Times on Tuesdays, Fridays and Saturdays.

For further information or to advertise in this section please contact
Melanie Miles on 0171 873 3308

# Financial Times Annual Report Service



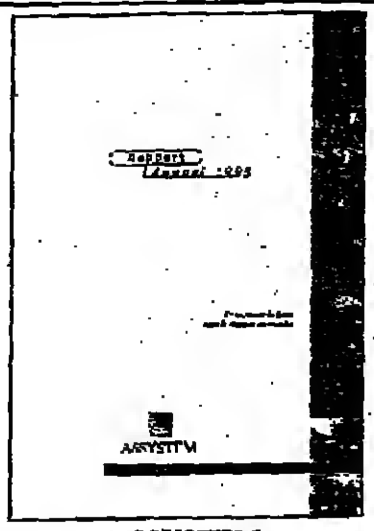
## AEROSPATIALE

In 1995, Aerospatiale continued to improve its financial performance within a market characterised by hypercompetition and a weak US dollar. Aerospatiale booked orders worth 39.3 billion francs, marking a strong recovery from the total of FF23.6 billion in 1994. With the dollar at FF5.38, versus FF5.80 in 1994, Aerospatiale posted total sales of FF49.23 billion. Assuming a comparable structure and dollar, sales would have increased by 1.8%. Pretax income on continuing operations, excluding minority interests, increased from FF26 million in 1994 to FF533 million in 1995, despite the weak dollar, which "cost" the company FF576 million. Aerospatiale posted a net loss of FF981 million for the year, including a charge of FF1.3 billion to cover the cost of a restructuring plan designed to ensure profitability with the dollar remaining at five francs. The company once again reduced its net debt, by FF1.1 billion.

## ALCATEL ALSTHOM

Alcatel Alsthom is one of the world's leading providers of high technology systems and equipment for telecommunications, power and transportation. Each of the Group's business segments ranks among the very best in its field. Its products are key to the economic development of countries around the world. The Alcatel Alsthom share is listed on the Paris Bourse, London's SEAQ, as an ADR on the New York Stock Exchange, as well as on stock exchanges in Tokyo and Europe's major financial centers.

With 1995 sales of FF 160.4 billion and 191,800 employees, Alcatel Alsthom operates in over 130 countries.

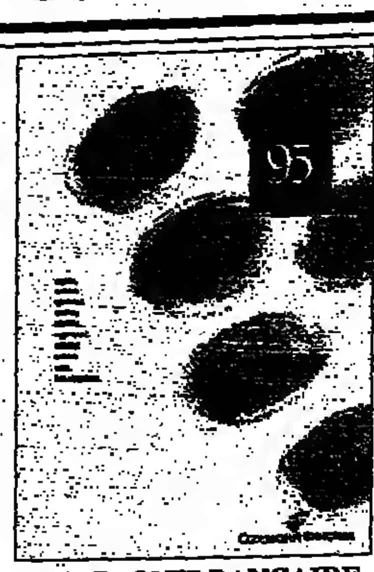


## ASSYSTEM

ASSYSTEM specialises in providing consultancy services to industry and makes it possible for its clients to optimise the total cost of ownership of their investment. Initially focused on the testing and start-up of industrial installations, the ASSYSTEM Group has widened its operations upstream, to include industrial project study and design phases, and downstream, to assist in the operation of production tools. ASSYSTEM, which originally functioned in a nuclear environment is today providing its value-added services to the steel industry, and such sectors as aeronautics and space, automobile, transportation, chemicals and pharmaceuticals, etc.

The ASSYSTEM Group's sales amount to FF 1,444 billion and its net earnings to FF 148 million. ASSYSTEM's shares have been listed on the unlisted securities market, the "Second Marché", of the Paris Stock Exchange since June 9, 1995.

ASSYSTEM's strategy is based on external growth in value-added services.



## COMPAGNIE BANCAIRE

One of the leading European banking groups of companies specialising in providing financial services to individuals and businesses.

Compagnie Bancaire parent company co-ordinates strategic planning. It is also responsible for funding the Group's lending activities.

*1995 Financial Highlights*

| | |
|---|---|
| Total loans managed: | FF 203.2 billion (US$ 41.5 billion) |
| Saving funds under management | FF 81.6 billion (US$ 16.7 billion) |
| Consolidated net profit, | |
| - including minority interests | FF 1,178 million (US$ 240 million) |
| - after minority interests | FF 602 million (US$ 123 million) |

## CAISSE CENTRALE DES BANQUES POPULAIRES

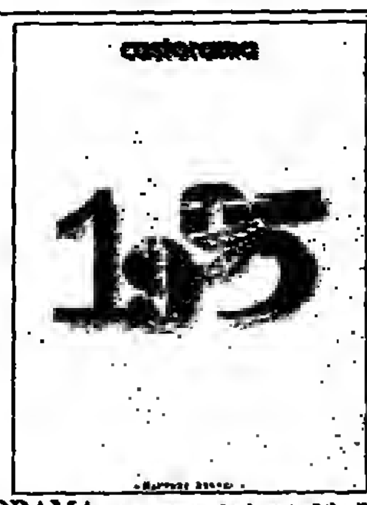
Caisse Centrale des Banques Populaires is the central banking, finance and technical body of the French Banques Populaires group. It is also a bank in its own right, and is present in all French market sectors. As the Group's financial holding company, it controls and supports a network of specialised subsidiaries. Its customers? Large corporates, small and medium-sized enterprises, institutional investors and issuers. Caisse Centrale provides all of them with pertinent financial solutions based on the latest market techniques. Its company philosophy is to develop a long-term partnership with all customers, built on dialogue and mutual confidence, anticipating their requirements and providing the financial solutions they need.

## CARBONE LORRAINE

Carbone Lorraine designs, manufactures and distributes electrical components in three fields (75% of sales): brushes for electric motors, magnets, and electrical protection. It also develops a business of graphite specialty products thanks to its technical mastery of material processing. The group made a turnover of FRF 3.6 billion in 1995, an increase of 22% over the year (9% with comparable perimeter and exchange rates).

1995 showed continued improvement of results. The year was marked by decisive events for the group's future:

- the change in the capital structure and the privatisation,
- the change in size, as a consequence of the acquisition of UGIMAG (permanent magnets), and an increase in capital stock.



## CASTORAMA - A group at the heart of the DIY market

134 stores in Europe: ● France: 122 DIY stores and 6 builders' merchants ● Italy: 5 Castorama stores ● Germany: 6 Castorama stores ● Belgium: 1 Castorama store

Our achievements in 1995: Sales: FF 16.4bn, up 10%

Adjusted net income: FF 346m, up 15%

The outlook for 1996: Castorama expects its sales to reach FF18bn this year.

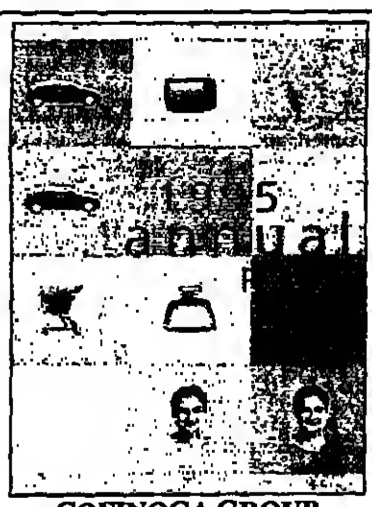
We will pursue our policy of steady expansion, strengthening our position in Europe with budgeted investments of FF1bn.

*For more information please contact:* Investor Relations - Castorama

59175 TEMPLEMARS, FRANCE - Telephone (33-) 20.87.75.11

## CLUB MEDITERRANEE

Club Méditerranée, the world's leading vacation village operator, is unique among companies in the tourism sector. With an international shareholder base and facilities on five continents serving 1.4 million customers from around the world, Club Med is a global enterprise that generates sales of FRF 8.3 billion. But Club Med is still identified with the "Village" - an original holiday concept. A staff of 25,000, composed of resort professionals - whom we call " Gentils Organisateurs" or G.O.s - and service employees, run Club Med's exceptional locations. Through the G.O.s, Club Med spreads its values to more than 100 villages, values that have ensured the company's success for more than 40 years.



## COFINOGA GROUP

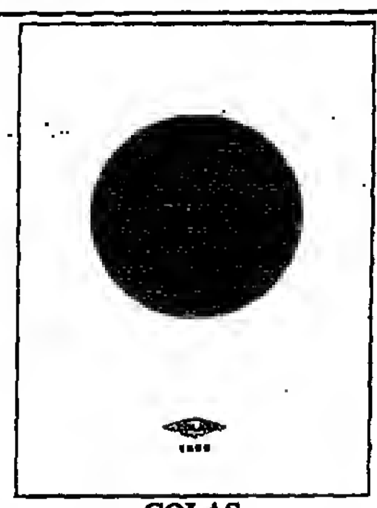
COFINOGA, consumer credit specialist and French market leader in private label cards, increased production by 30% in each of its main areas of business: cards, personal loans and instalment credit.

*Financial results at December 31st, 1995 in French francs*

- Total loans under management: 17.3 billion francs (+ 18.5%)
- Net banking income: 1.738 billion francs (+17.7%)
- Turnover excluding credit: 718 million francs
- Net earnings: 285.4 million francs (+18.5%)
- 4 million clients
- 1,700 employees

Key facts in 1995

- Consolidation of position in distribution: issued 700,000 private label cards
- *Development of the POINTS CIEL customer loyalty programme*
- Creation of partnerships in insurance and savings



## COLAS

*Leading Road Contractor*

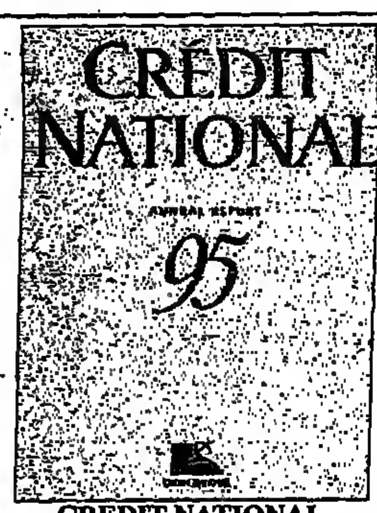
*Highlights of the 1995 financial year were:*

- a further increase in revenues, up by 1% to 19.2 billion French francs
- continued international expansion, involving investment of 7.3 billion French francs, chiefly concerning the acquisition of new subsidiaries Colas Danmark and Colas Ltd
- an improvement in net income, 13% higher at 404 million French francs, and cash flow available from operations (1,000 million French francs)

The early part of the 1996 financial year has seen the completion of the program to acquire all Colas companies in Europe with Germany and Ireland, the Group owns exclusive rights to the Colas trademark in almost 150 countries. In France, there are signs of a slight drop in roads contracts. In international business, the time that is currently available allows us to be reasonably confident. The excellent geographical balance between activities around the world (14% in North America, 13% in Europe, 6% in Africa, the Indian Ocean and Asia, and 3% in French overseas departments and territories) is a strong trait of the brand of the Colas Group as it continues its expansion drive on all five continents.

## CREDIT LOCAL DE FRANCE

Since its creation, the French leader in local development financing, Crédit local de France has reported regular growth in business and income. This growth is confirmed by the company's international development in Great Britain, Spain, Austria, Germany, Sweden and the United States. In 1996, Crédit local de France and Crédit communal de Belgique began talks to pool activities. The goal is to form a major European group specialized in the financing of local public service facilities. With equity of more than FRF 20 billion and a BIS ratio of almost 20%, Crédit local de France has been rated AAA/Aaa by Standard & Poor's, Moody's and IBCA. Net income, group share, totalled FRF 1,480 million in 1995.



## CREDIT NATIONAL

The Crédit National Group serves as the principal French bank to large and medium-sized companies. In taking control of Banque Française du Commerce Extérieur, the Group took a decisive step in its development, to become a major force on the French banking scene. With a complete range of short, medium and long term credits both in France and abroad, Crédit National covers all areas of capital investment and is among the top 10 establishments managing UCITS.

Key consolidated figures of the new integrated Group (31/12/1995)

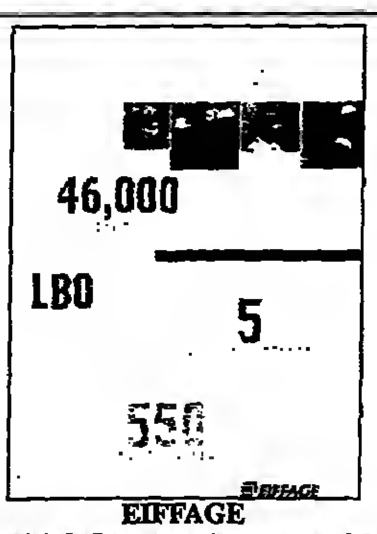
| | (in billions of francs) |
|---|---|
| Total balance | 334 |
| Cooke Ratio | 9% |
| Base share holder equity ("Tier 1") | 5.8% |

Chairman and Chief Executive officer: Emmanuel RODOCANACHI

(This Crédit National Annual Report includes a specific insert on the merger with BFCE).

## THE DANONE GROUP

The DANONE group ranks as the no.1 multiproduct food group in France, no.3 in Europe and no.7 in the world. The group is no.1 in the world in fresh dairy products (Danone) and biscuits (Lu, Belin, Jacobs...) and no.2 in mineral waters (Evian, Volvic...). In Europe, the DANONE group ranks as the leader in fresh dairy products, biscuits, sauces and condiments (Amora, Maille, Lea & Perrins...) and 2nd in mineral water, pasta (Panzani, Agnesi), beer (Kronenbourg) and packaging in glass containers. The group has based its development on an innovation policy and internationalisation of its activities in Asia, Oceania, Central Europe and Latin America. The DANONE group performed in 1995 a turnover of 79,450 MF and a net profit of 2,133 MF.



## EIFFAGE

EIFFAGE is one of the leading European construction groups, operating in five core sectors: Building (Eiffage is the first french construction group), Civil Engineering, Road Construction (notably reinforced in 1995), Electricity Installation and Services. Its activities are carried out through branches which are themselves highly decentralised and operate through many subsidiaries. Approximately 80% of the group's employees are shareholders of EIFFAGE, within a LBO started in 1990. In addition to its particularly dense network of operating companies in France, EIFFAGE is also present in several European countries and is currently strengthening its export activities, with ongoing projects in Turkey, Egypt, Nigeria and south-east Asia where the group carries on its development strategy, notably in Indonesia, Thailand and China.

## EMC GROUP

EMC is an agro-chemical group.

Its three main activities are:

- chemicals, with organic, inorganic and fine chemical speciality products
- animal feed and health
- potash and fertilising speciality products.

Industry of environment and hazardous industrial wastes treatment complete the Group's activities.

Consolidated 1995 Sales: 16.8 billions of french francs.

Chairman of the Executive Board: Bernard Pache

Main subsidiaries: Tessenderlo Chemie, Sanders, TREDI, SCPA, MDPA

## ERIDANIA BÉGHIN-SAY

Eridania Béghin-Say is an agro-industrial group whose activity spans the range from agricultural raw materials to final products sold on supermarket shelves. In all its businesses, Eridania Béghin-Say holds leadership positions which place it among the major players in the world's food industry.

Thanks to the systematic research of new industrial outlets for agricultural products and to the permanent development of quality, Eridania Béghin-Say transforms the earth's bounty into life's progress. In 1995, Eridania Béghin-Say boasted consolidated turnover of approximately FF 51 billion, with staff totalling 19,400 people, in 24 different countries.

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# São Paulo sells road concession for R$1.85bn

By Jonathan Wheatley in São Paulo

São Paulo, Brazil's most industrialised state, has begun an ambitious privatisation programme with the sale, for R$1.85bn (US$1.845bn), of a 20-year concession to operate 250km of highway.

The price paid was more than double the value estimated by the state government before the sale. "We expected to sell the concession for R$850," said Mr Plinio Assmann, transport secretary. "It shows the very high value of this business."

The sale is the first by São Paulo state, whose privatisation programme is later expected to include electricity generating and distribution assets worth an estimated R$20bn.

The concession covers two of the state's busiest and highest quality roads, running parallel from São Paulo city towards the industrial and agricultural interior.

The buyer is Servix Engenharia, a subsidiary of Tratex, a Brazilian heavy construction group. A bid of R$1.887bn from another construction group, CR Almeida, was disqualified for technical reasons.

Another seven bids were received, all from groups led by Brazilian construction companies.

Payment will be in monthly installments throughout the concession period. Servix's income will be derived from tolls at current rates of approximately R$0.04 per km for passenger vehicles.

It estimates income during the concession at R$5.955bn.

Servix must invest a minimum of R$1.1bn to extend one of the highways and to modernise toll gates and other infrastructure. It is expected to take over management of the highways in September.

The sale is the first of 22 concessions in São Paulo due to be handed to private management, covering 5,000km of trunk roads. Governor Mário Covas hopes to sell 70 per cent of them during his term in office, which runs to the end of 1998.

Mr Assmann would not put a value on the remaining road sales, although he expected the private sector to invest R$5bn in modernising and expanding the network during the first concession periods. Income from the concessions would be spent on modernising the state's remaining 25,000km of paved and 200,000km of unpaved roads.

He added that the sale raised almost six times the fee paid recently for a 30-year concession to operate 7,000km of railway in eastern Brazil.

Despite Brazil's size, road transport is extremely important in the economy; about 90 per cent of freight is carried by road.

# Tenneco absorbs shock of change

**Laurie Morse** on the creation of a leader in packaging and car parts

With his announcement last Wednesday that Tenneco would divest its energy and natural gas businesses through merging them with El Paso Energy, Mr Dana Mead, Tenneco's chairman, completed a five-year corporate transformation that few executives would have attempted.

By the end of this year, Mr Mead and his management team expect to have spun off or sold four of Tenneco's six disparate businesses, knocked out the "conglomerate discount" that for years has left Tenneco's shares undervalued, and positioned the remaining two businesses for global growth of 15 per cent per year.

Tenneco will now comprise two businesses – automotive components and packaging – that are leaders within their industries and have strong international prospects. It will produce shock absorbers and exhaust systems for almost every prominent car manufacturer in the world, and will make a range of packaging that includes everything from retail rubbish bags to industrial cardboard boxes.

The decision to spin off Tenneco Energy was the most recent in a series of moves that began in 1994 with a public offering of Case, the heavy equipment manufacturer, and included last year's sale of Albright & Wilson, the UK chemicals company.

The sale of the energy company was significant beyond the financial details – Tenneco began as Tennessee Gas and Transmission Company in 1943 – but those are important. The deal will bring nearly $4bn in value to Tenneco shareholders, in the form of equity in El Paso Energy and El Paso's assumption of nearly $3bn of Tenneco's debt and other liabilities. The transaction will give Mr Mead and his management committee a fresh line of credit to use to make strategic acquisitions in the remaining two businesses.

Even before the El Paso announcement, the Mead team had transformed Tenneco. In 1991, the year before Mr Mead and his mentor and predecessor, the late Mike Walsh, joined the company, all six Tenneco divisions had falling operating profit; the group's $6bn debt was 70 per cent of capital and the company reported a $750m loss for the year despite $7bn asset sales.

Relentless cost-cutting and an obsession with setting and meeting quality and performance goals, from the shop floor to the boardroom, allowed management to staunch heavy losses at the Case unit, and return it to profitability within two years. The successful four-part public offering of Case that followed convinced Wall Street that Mead had both the determination and the talent to remake Tenneco.

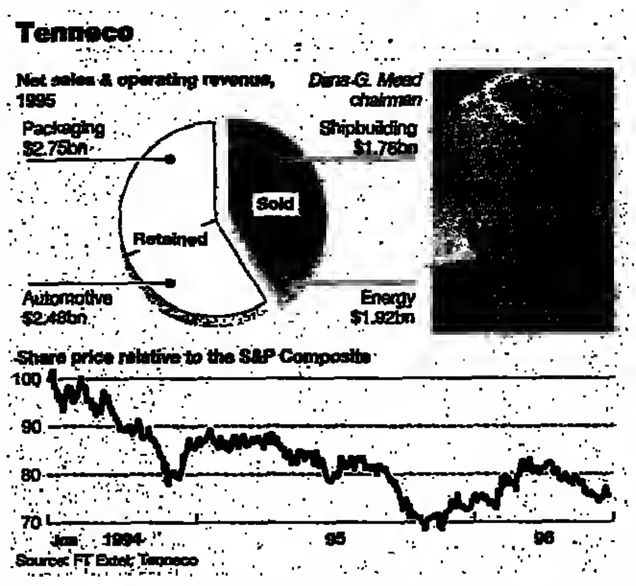
By 1995 the turnround was so successful that Tenneco earned $723m on sales of $9bn (1996 revenues are projected at $10.5bn). Once the El Paso merger is complete and the tax-free spin-off of Newport News Shipbuilding to shareholders is finished, Tenneco's debt will shrink to 30 per cent of capital.

Tenneco management continues to face the challenge of replacing the revenues and income of its former units with higher-yielding businesses. The company's net profit margin reached 7.5 per cent last year as it redeployed income from asset sales.

Since the first Case offering in 1994, Tenneco has made $2.4bn in fresh acquisitions and bought back $750m of its own stock. Mr Mead has repeatedly said that Tenneco is not contemplating entering new businesses, and will not make acquisitions simply for the sake of redeploying capital.

He waited nearly a year after the initial Case sale to purchase Mobil Corp's plastics business for $1.3bn, a transaction that made Tenneco the fourth-largest packaging company in the world. Analysts say the plastics business will more than replace Case's lost income this year, and will boost Tenneco Packaging's revenues to $4bn. Tenneco also made 10 smaller packaging buys last year.

Similarly, Tenneco last week bought Ohio-based Clevite, a manufacturer of vehicle vibration-control components, for $300m. The company sees its greatest growth prospects in the automotive business, and last year made buys in Spain (Fonos), the Czech Republic (Ateso), Australia and New Zealand (National Springs), and entered joint-ventures in India and China.




## NEWS DIGEST

### Warner Brothers in joint venture talks

Village Roadshow, the Australian cinema and entertainment group, said yesterday that it was "in active negotiations" to create a joint venture with the US-owned Warner Brothers operations in the UK and Germany. The two companies are already in a joint venture to build 18 new "megaplexes" – each housing about two dozen screens – in Australia over the next three years. They have also been involved in joint theme park operations on Queensland's Gold Coast.

Warner operates 135 screens on 15 sites in the UK and has 17 screens in Germany's Ruhr Valley. Village recently raised about A$216m (US$171m) through a preference share issue, to accelerate its international expansion plan.

The Australian company has already moved into south-east Asia, notably Thailand, Singapore and Malaysia, and has a stated target of increasing earnings by 20 per cent a year.
*Nikki Tait, Sydney*

### TransAlta Energy in NZ plan

TransAlta Energy, the Calgary-based power utility, has bought the 51 per cent it did not already own of Capital Energy, the electricity distribution company serving Wellington, New Zealand. The shares were bought from the Wellington municipality for NZ$90m (US$61m). TransAlta also plans a NZ$65m capital injection to retire all Capital's debt.

The intention is to merge Capital Energy with EnergyDirect Corporation, another power distributor in the Wellington area in which TransAlta has a 41 per cent stake. The Canadian group would end up with a 63 per cent interest in the combined company, which would be New Zealand's fourth biggest electricity distributor, with 140,000 customers.
*Bernard Simon, Toronto*

### 3Com disappoints with 37% rise

Shares in 3Com, the fast-growing US computer networking company, dropped 9 per cent yesterday in response to a 37 per cent rise in fourth-quarter earnings. The market had hoped for a sharper increase. Earnings before special charges were $88m, or 46 cents a share, while sales rose 39 per cent to $660m. The shares fell $4¼ to $46¾ in early trading. After non-recurring items – chiefly a $62m pre-tax charge for the acquisition of technology – fully diluted earnings in the fourth quarter were down from 31 cents a share to 16 cents. For the full year, sales rose 46 per cent to $2.3bn, while net income before charges was up 43 per cent at $280m, or $1.58 a share. After charges, full-year income rose 19 per cent to $1.00 a share. Sales of systems products, such as hubs and switches, rose 43 per cent to $378m. Sales of network adapters, such as PC cards, rose 34 per cent to $258m.
*Tony Jackson, New York*

### Dominion Energy in Peru move

Dominion Energy of Richmond, Virginia yesterday moved into power generation in Peru by acquiring a controlling stake in the northern Peruvian electricity generating system, Egenor. Dominion's offer at public auction of $228.2m for 60 per cent of the shares narrowly defeated the only other bid – of $223.5m – from Destec, another US independent power producer.

Dominion already has a presence in Argentina and in Bolivia. All its Latin American acquisitions have been through privatisations.

Dominion is contractually obliged to invest in and expansion of Egenor's 406MW installed capacity – comprising two hydro and six thermal power plants – by at least 100MW in the next 36 months. Egenor, formerly owned by the state-owned group, Electroperu, is currently making profits of about $5m a month.
*Sally Bowen, Lima*

# CapCities/ABC in international revamp

By Raymond Snoddy

Capital Cities/ABC, the US broadcaster, yesterday announced a restructuring of its international interests and their integration with Walt Disney Television International.

The move, to be called Disney/ABC International Television, creates a group which combines stakes in broadcasting and production companies with both Disney programme distribution and Disney channels carried on cable and satellite.

Mr Herbert Granath, who is based in New York, will be chairman of the new international business, which follows last year's merger of Disney and CapCities/ABC. Mr Etienne de Villiers, who runs Disney's international operations, will be president of the combined operation and will run the organisation day-to-day from his London headquarters.

The new division integrates the international broadcast, cable and sales activities of CapCities/ABC with the international free and pay television, distribution, production and broadcast organisation of Walt Disney Television International.

In particular, the combined group would bring together several of the most important elements in driving forward pay TV systems – movies, sport through ESPN and Eurosport, and the Disney channel.

Mr de Villiers has overseen the successful launch of Disney Channels around the world – most recently in Taiwan, the UK and Australia, with future launches planned in the Middle East and France.

CapCities/ABC's interests in Europe include a 50 per cent stake in Tele-München, a Munich-based programme production and distribution group, a 21 per cent stake in Scandinavian Broadcasting System and a 23 per cent holding in RTL-2, the German cable and satellite service.

# Razzouk quits as AOL chief after four months

America Online, the leading US online service provider, announced yesterday that Mr William Razzouk had resigned as president and chief operating officer after only four months at the company, Lisa Bransten writes in New York.

The company said Mr Razzouk was having difficulty in moving his family to America Online's headquarters near Washington DC from their home in Memphis, Tennessee.

Mr Steve Case, America Online's chairman and chief executive, will take over Mr Razzouk's responsibilities.

Shares in the fast-growing company have dropped more than 40 per cent since early May. It is the subject of a Federal Trade Commission inquiry into its trial and cancellation policy and its practice of allowing users to pay through automatic withdrawals from their bank accounts.

هكذا من الأصل

# St George bid for Metway in the balance

By Nikki Tait in Sydney

Shares in Metway Bank, the Queensland-based regional bank, slid 9 cents to A$4.51 yesterday, as analysts decided the chances of the Sydney-based St George Bank succeeding with its A$810m (US$640m) bid were diminishing.

The matter will be settled in Brisbane today, when Metway shareholders vote on the St George proposals, which would be implemented by a scheme of arrangement. The bidder needs 75 per cent approval from each class of share for the scheme to go ahead.

St George's chances of success have diminished in the past few days as the Queensland state government – which has promoted a rival scheme, involving a merger between Metway and two other financial institutions in the state to create a regional financial services group – has bought up shares in Metway. Mr Rob Borbidge, the Queensland premier, confirmed yesterday that the government owned a 9.9 per cent interest in Metway.

A further complication is a 25 per cent stake in Metway preference shares held by National Australia Bank, the country's largest bank. NAB, which also has a small stake in St George and has been rumoured as a possible bidder for the Sydney-based organisation, has declined to say how it will vote the interest. However, it has the potential to block the deal.

St George admitted yesterday that the situation made it "extraordinarily difficult" for its bid to succeed, despite the fact that Metway directors have recommended its terms (which top those offered under the state government scheme).

It said that its slim chance of success would depend entirely on an extremely heavy turnout of small shareholders anxious to take cash.

The Queensland government scheme would see Metway merge with Suncorp Insurance and Queensland Industry Development Corporation, both government-owned, to form Australia's fifth largest banking and financial services group, with assets of A$21bn.

# Dickson Concepts acquires Seibu HK, Shenzhen stores

By Louise Lucas in Hong Kong

Dickson Concepts, the Hong Kong based luxury wholesaler and retailer, is to take control of the Seibu department stores in Hong Kong and Shenzhen, in southern China, for HK$180m (US$23.2m).

Dickson Concepts received about £64m (US$98.4m) from the flotation in April of 49.9 per cent of its Harvey Nichols unit, but Mr Dickson Poon, chairman, noted that even without that windfall the company's net cash position stood at more than HK$400m.

Under the deal, which is subject to a number of conditions, Dickson Concepts will acquire 85 per cent of Hong Kong Seibu Enterprise Company in return for an injection of HK$180m. The company's operations include a wholly-owned department store in one of Hong Kong's prime shopping malls and a 55 per cent interest in a smaller Seibu store in Shenzhen.

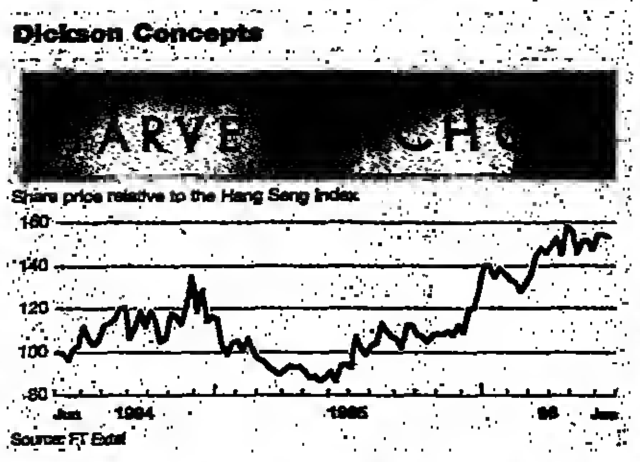
Seibu Department Stores, the Japanese company of which Hong Kong Seibu is a wholly owned subsidiary, is selling out after six years, just as the Hong Kong store is starting to break even. Turnover for the year to February 29 was about HK$800m; at Shenzhen, turnover was more than HK$135m and the business was profitable, according to Mr Poon.

However, Seibu said the sale was in line with its policy of localisation – bringing local management skills to its operations around Asia.

In the partnership, Dickson Concepts will be primarily responsible for the management and operations of Hong Kong Seibu, while Seibu Department Stores will grant the exclusive franchise for the use of the trademark as well as offering know-how on business development and expansion.

Mr Poon said he expected to be able to achieve a net return of about 10 per cent out of sales in the next financial year, which he said would mean a profit of HK$68m after tax – or a return of 68 per cent on equity. Dickson Concepts' investment is split into a HK$100m shareholding and HK$80m shareholder's loan.

Dickson Concepts' share price rose 30 HK cents – or 3.47 per cent – to HK$8.95 yesterday, fuelled by expectations of the acquisition.




# Deutsche Telekom may list in Asia

By James Kynge in Singapore

Deutsche Telekom, the state-owned German group, yesterday said it was considering listing its shares on an Asian stock exchange.

Mr Ron Sommer, chairman of the management board, said after signing to buy 21 per cent of Malaysia's Technology Resources Industries that Deutsche Telekom was "thinking intensively" about a secondary listing in Asia. It has plans to launch one of the world's biggest IPOs in November in Germany and expects to raise DM15bn ($9.79bn). Later, it also plans to list in New York.

"We are discussing with our advisers where to enter Asia," Mr Sommer said. "Many say the place to start is Tokyo, but a decision has not been made."

Analyats said Deutsche would have to pay abont M$570m (US$228m) for its 21 per cent stake in TRI, a deal announced in May. TRI is the leader in Malaysia's mobile phone market and its alliance with the German group is likely to make it a strong rival to Telekom Malaysia, the former monopoly.

## NEWS DIGEST

# Joint venture plans Israeli Visa card

Competition in Israel's fast-growing credit card market is set to increase following a deal announced yesterday by First International Bank of Israel, a member of the Safra group, and Aurec, an information technology company part-owned by SBC Communications, of the US. A joint venture between the two companies has won a licence to become Israel's second provider of Visa credit card services.

FIBI said the new company, the first auch operation owned by the Safra group, aimed to provide credit card services for the family of Safra banks worldwide. The new Visa company would have an initial financial investment of "dozens of millions of shekels", said the venture's managing director, Mr Yaacov Dior.

Sixty-seven per cent of the shares will be beld by FIBI and 33 per cent by Aurec. The company will begin operations in 1997, trying to win over card-holders and businesses signed up with the existing Visa International franchise in Israel, ICC. "Real and very strong competition will enter the market. The whole nature of the credit card industry in Israel will be changed dramatically," FIBI said.

It added that it was "more than possible" that the new venture would produce Israel's first fully-fledged credit cards and provide direct credit to customers. ICC and Isracard, a local licensee of MasterCard International, issue what are essentially charge cards whose entire monthly balance is debited from a bank account. Mr Dior said the new FIBI-Aurec Visa consortium planned to share its profits with card-holders and merchants.

Aurec's ownership is equally divided between the Israeli Kahan gronp and SBC Communications. The group controls Arutzei Zahav, Israel's largest cable-TV provider; Dapel Zahav, a local equivalent of the Yellow Pages business telephone directory; and Amdocs, Israel'a largest software group. The credit card market in Israel has an annual turnover of $10bn. According to a recent survey, 29 per cent of Israeli adults hold a Visa and another 29 per cent carry a MasterCard.

*Yaroslav Trofimov, Tel Aviv*

# Samsung lifts KorAm Bank stake

Samsung, South Korea's largest business group, said yesterday it had agreed to take over Bank of America's 10 per cent stake in KorAm Bank. After the transaction, Samsung will be the biggest Korean shareholder in the joint venture bank. Samsung's shareholding in the joint-venture bank will rise to 15.79 per cent after tha deal. Before Samsung's takeover, Daewoo Group was the biggest Korean shareholder with 9.58 per cent. The Bank of America still maintains the single biggest stake – 19.3 per cent – in the bank. *AP-DJ, Seoul*

# Boral power plant to go ahead

Boral, the Australian building materials and energy group, said it had reached final agreements that would allow the building of a A$175m (US$138m) co-generation power facility in South Australia to go ahead. The project is a joint venture between Boral and Canadian-based CU Power International, part of the Canadian Utilities/ATCO group of companies.

The 180MW co-generation plant will be largest such private sector project in Australia, drawing on natural gas from South Australia's Cooper Basin, where Boral has interests, and will provide a steam supply to Penrice Soda Products, for use in the production of soda ash. It will also generate an independent electricity supply for ETSA Corporation, the state government-owned electricity utility. Construction is due to start in October and the plant should be fully operational by July 1998. *Nikki Tait, Sydney*

# BRL Hardy buys NZ holding

BRL Hardy, Australia's second-largest wine producer, has bought a one-third stake in New Zealand's National Liquor Distributors for an undisclosed sum. A similar stake will be acquired by Nobilo Vintners, the New Zealand-based wine group which is best-known for its "White Cloud" label and which already has a distribution arrangement with Hardy in Australia. Mr Stephen Millar, Hardy's managing director, said the stake would provide a "long-term, stable distribution arrangement". *Nikki Tait*

# HIH Winterthur in Argentine deal

HIH Winterthur, the listed Australian general insurer, said yesterday that it had set up a joint venture with Argentina's Interamericana group, to provide workers' compensation services in Argentina. The move followed the Argentine government's decision to make workers' compensation compulsory from next month. It said it expected the joint venture – HIH Interamericana ART – to generate about A$20m (US$16m) of premium income this year. *Nikki Tait*

# Thai mobile phone venture draws strong protests

By Ted Bardacke in Bangkok

Thailand'a booming mobile telephona market, controlled by two companies, is set to have a third competitor – with strong links to one of the existing operators.

International Enginearing (IEC), a distributor of telecommunications equipment controlled by media tycoon Mr Sondhi Limthongkul, and Total Accsaa Communications, which already runs both analogua and digital mobile phone systems, have set up a company – Wireless Communications Service – to offer digital mobile phone services from June 1997.

Wireless Communications will operate its service on portions of the 1,800-megahertz bandwidth allocated to Total Access, which the latter does not use. The subcontracting out of this bandwidth to a friendly affiliate – IEC is already a service provider and marketer for Total Access, which holds a 6.3 per cent stake in IEC – is seen by analysts as a way for Total Access to thwart potential competition in the highly profitable mobile phone industry.

The move is being undertaken with the agreement of the state-owned Communications Authority of Thailand, which will receive between 25 per cent and 30 per cent of the revenue of the new company, including a minimum annual guarantee of $144m. It will also receive a 1.1 per cent equity stake in the new company.

IEC will hold 53.9 per cent of Wireless Communications and Total Access will hold 45 per cent, although IEC will underwrite 70 per cent of the new company's start-up costs.

Advanced Information Services, Thailand's other mobile telephone operator, whose shares fell more than 5 per cent on Friday, and the Thai media have protested against the deal, charging that available bandwidth should be used to increase competition in the industry, not to set up affiliate companies.

Mr Suradet Mukyangkoon, IEC president, said: "Total Access is committed not to interfere in the new company's operations, so as to create free competition."

Nevertheless, Total Access and Wireless Communications have agreed to form a roaming arrangement, which will allow subscribers to connect between the two networks.

Total Access will also give the new company an initial group of subecribers, thus allowing Wireless Communications to generate revenue from its first day of operations.

Wireless Communications will pay Total Access $150m for these two privileges, an amount Mr Suradet conceded "may not be worth enough for Total Access".

Yet keeping competitors out is vital, analysts said. "Total Access has often been criticised for having far too wide a bandwidth. The agreement with IEC is intended to reallocate some its frequencies to an ally, before a future government takes them back and gives them to a real competitor," said Seamico Securities.

COMPANY NEWS: UK

# Pru to float M&G with £1.5bn tag

By Motoko Rich and Ralph Atkins

Prudential, the UK's largest life assurance group, has joined the accelerating process of consolidation in the UK financial services industry, announcing it is to float its Mercantile & General reinsurance subsidiary and expand its presence in life insurance and retail banking.

The group aims to float M&G by a global equity offering in the autumn.

Analysts said the flotation valuation, which some have estimated at up to £1.5bn ($2.29bn) would be difficult to fix because this would be the first reinsurance company to list in London.

For this reason, the group is expected to sell only about half of the shares.

"We have decided to concentrate on the retail financial services sector and related fund management and not be in the wholesale end of the business," said Mr Peter Davis, chief executive.

The flotation would mark the group's first strategic move since Mr Davis became chief executive in May 1995. Mr Davis and his board decided M&G was a non-core subsidiary offering few synergies with its life insurance and fund management businesses.

Pru shares rose 4p to 409p on the news. Analysts said the decision to spin off the reinsurance subsidiary made sense. "M&G has been recognised as non-core for several years," said Mr David Nisbet, analyst at NatWest Securities.

The flotation, expected in the autumn, opens the way for the group to make acquisitions in the UK and expand overseas. The Pru's move follows other developments in the UK insurance industry, including the merger between Sun Alliance and Royal Insurance, the flotation of Sun Life & Provincial, part of French insurer UAP and the acquisition of Clerical Medical, the life assurer, by Halifax Building Society. The Pru has made no secret of its desire to buy another life insurance company and a building society in the UK.

Mr Davis said he foresaw further consolidation and polarisation in the UK market, with a handful of large groups dominating the industry in the next century.

Over the past few months the Pru's name has been linked with a number of potential targets in retail finance, including the Woolwich and Alliance & Leicester building societies and Friends Provident, the mutual life assurer.

The Pru also plans to expand into mortgage lending and deposit taking in a bid to retain some of the funds released when its life policies mature.

Although the funds raised through the flotation of M&G will provide the Pru with financial ammunition for its expansion plans, analysts did not rule out the possibility of a future rights issue.

"They have scope to raise about £500m of debt and if they get about £600m from the M&G deal they could also gear up some amount of debt on the back of that," said Mr Nisbet.

"But the balance will have to come out of new equity so it seems to me a rights issue could still be on the cards."

M&G is likely to seek listings in New York and other markets as well as in London.

M&G was hit badly in the early 1990s by a series of catastrophes and industrial disease claims. The general reinsurance activities reported a £95m operating loss in 1993 but, after the appointment of a new management team, made a £63m profit last year. Prudential has failed to secure a trade sale, despite approaches from possible bidders in recent years.

# Vocalis to float at £30.5m

By Jane Martinson

Vocalis Group of Cambridge, which integrates speech recognition technology into telecommunications systems, is to place 5.3m shares at 95p, a price which gives further evidence of the market's appetite for new technology issues.

The placing values the company at £30.5m ($46.66m), £5m more than predicted last week. Albert E Sharp, brokers, said the flotation had been substantially oversubscribed.

Most of the £4.4m net raised from the placing of just under 20 per cent of the shares is to be spent on product development and marketing.

Mr Jeremy Peckham, managing director, said the workforce would rise from 30 to 80, with most being taken on in sales and marketing. An office is also being set up in California at the end of this year. "We feel that the time has come to put the proven products out into the marketplace," he said.

Typical are an automated receptionist and a voice-activated mobile telephone.

Last month, the company signed a deal worth £500,000 with Ericsson, the Swedish telecommunications group, to supply Telekom Malaysia with equipment. Mr Peckham said the company was in discussions on further deals.

Vocalis was formed three years ago in a management buy-out from Logica, the computing services group. The 13 buy-out members retain a 26 per cent stake.

Heavy investment in the year to March 31 led to a £1.21m loss on sales of £535,000. In the first two months of the current year the company achieved sales of £253,000. Mr Peckham expects similar levels of investment to affect profits this year.

Brendan Corr

Jeremy Peckham: 'Time to put proven products into the market'

# Wickes shares suspended

By Andrew Taylor and William Lewis

The chairman of Wickes, the troubled DIY retailer, came under a storm of criticism from institutional investors yesterday after the group revealed that serious accounting problems probably resulted in 1995 profits and shareholders funds being overstated.

The group's shares were suspended yesterday morning after plunging by 40p to 69p.

Wickes said it was not possible to quantify the "magnitude of these overstatements" and would only say that its problems related "to the timing of recognition of profit from supplier contributions."

These are understood to involve cash discounts, known as over-riders, paid by suppliers to large DIY stores and builders merchants in return for in big volume orders.

It is thought that some of the benefits of over-riders may have been included by Wickes in its annual profits before items had been sold. The company warned that earlier years profits may also have been over-stated.

A board meeting was still continuing at Wickes last night.

LEX COMMENT

## Wickes

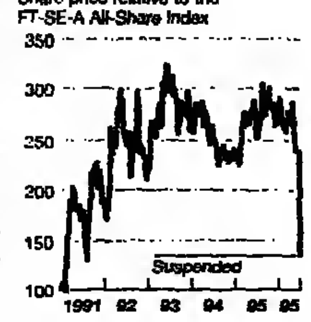
Is Wickes, the Do-It-Yourself retailer, being held together by a couple of nails and a bit of sticky tape? Yesterday's 37 per cent drop in the share price before it was suspended suggests the market thinks so. "Serious accounting problems" are enough to churn the most seasoned investor's stomach. Like many businesses, Wickes has been in the habit of squeezing discounts out of its suppliers in return for promising to sell a certain volume of their products. Like most retailers, it was paid some of these discounts upfront in cash, to help defray extra marketing costs. The problem in this case, it appears, is that Wickes booked these discounts as profits, only to find later that it failed to sell the promised volume of goods and therefore was not entitled to that profit.

As the DIY market's pile-'em-high, sell-'em-cheap operator, Wickes has won plaudits from the City for grabbing market share by opening new stores and undercutting rivals. If it now turns out that this rapid expansion was based partly on fake profits, it raises questions over the whole strategy.

It also raises serious corporate governance issues. Wickes is run by Mr Henry Sweetbaum, who has combined the roles of chairman and chief executive since he rescued the business from near-bankruptcy in 1982. Last year the board paid itself £3.8m – more than a tenth of underlying profits. Mr Sweetbaum received £1.2m including a £750,000 bonus based on share price performance which, it now emerges, was built on inflated profits. At the very least, Mr Sweetbaum should split his roles and repay his bonus.

Wickes

Share price relative to the FT-SE-A All-Share Index




Source: FT Extel

# Independent News calls for I£106m

By John Murray Brown in Dublin

Independent Newspapers, the Dublin-based media group controlled by Mr Tony O'Reilly, is raising I£106m ($66.7m) in a rights issue to strengthen its balance sheet.

The 1 for 3 issue, priced at 450p, is the first time the group has resorted to new equity since 1963. Its shares closed in Dublin at 500p, down 15p.

Mr O'Reilly refused to be drawn on the precise reasons for the issue, but did not rule out further acquisitions. "This is the right time for us to come back to the market," he told the annual meeting in Dublin.

Independent has an opportunity to increase its stake in the Australian Provincial Newspapers, following a change in federal laws restricting foreign share ownership. There is also an option to increase the holding in Wilson & Horton the New Zealand publisher. Mr O'Reilly hinted that he would not be expanding the group's electronic media interests.

He is taking up his rights on 8.5m shares, represanting about 21 per cent of the company, at a cost of I£22.9m. The balance is being underwritten by Bankers Trust International, and Davy, the Dublin stockbrokers.

The issue will reduce the company's gearing to 14 per cent. Before the announcement it was projected at 56 per cent by the year end, or 110 per cent if the value attributed to the titles is stripped out.

Asked about losses at The Independent newspaper, published by Newspaper Publishing, in which the Irish company has a stake, Mr O'Reilly said it was "one price increase and ona newsprint prica decrease away from profitability".

Brokers broadly welcomed the rights announcement. Although priced at about 12 per cent discount to the market, analysts say it is not a giveaway. Indeed it would seem to take full advantage of recent gains in the share price. Mr O'Reilly's pledge to take up his rights in full will also underpin any wavering shareholders.

The proceeds will help the company reduce dabt, after some cashflow constraints brought on by the pace of acquisitions. Mr O'Reilly was being unusually tongue-tied about acquisitions plans.



## COMPANY NEWS: UK

# Halma in 20th year of profits increase

By Ross Tieman

The crackdown on leaky pipes at Britain's water companies helped Halma, the hazard detection and measurement equipment maker, maintain its 20-year record of profit increases.

Pre-tax profits climbed 15 per cent to £33.6m in the year to March 30. Mr David Barber, chairman and chief executive, said growth in profits and in sales, up 13 per cent to £174m, was achieved with little help from acquisitions.

Mr Barber said three business areas, water leak detection, fire detection and gas detection accounted for half of the group profit increase.

The biggest improvement was in water leak detection. Halma reorganised its activities into a single company, Palmer Environmental, during the first half.

During tha second six months, profits recovered strongly after Mr Ian Byatt, tha water regulator, ordered Britain's water companies to reduce the volumes lost between reservoir and tap. Ona water company ordered 160 units for a total of £1m.

Apollo, the company's fire detection subsidiary, also made a strong showing. With more than 50 per cent of the UK market for wired systems, Apollo claims to rank third in the world, after American and Japanese rivals. It is stepping up its drive to win sales overseas.

Earnings per share increased by 15 per cent, in line with profits. The board is recommending a final dividend of 1.556p a share, making 2.564p, up 20 per cent.

With £19m of net cash at the year end, Mr Barber said Halma is seeking bolt-on acquisitions to reinforce its existing businesses. These are being sought in Britain, Europe and the US.

Since the year-end, Halma has already made three acquisitions. The most important was the £7.1m purchase of Keeler, a manufacturer of ophthalmic instruments, from Dollond & Aitchison in May.

# Psion may buy Amstrad

By Paul Taylor

Psion, the handheld computer maker, plans to pay £234m in shares for Amstrad, the computer and digital telephone group run by Mr Alan Sugar.

The two companies, which signed a memorandum of understanding a few weeks ago, confirmed yesterday they were in discussions that could lead to a Psion offer for Amstrad.

They said a bid, which is likely to be tabled in three or four weeks following the completion of due diligence, would be at a price of not less than 200p per Amstrad share payable in Psion shares, plus a further possible payment contingent on tha outcome of litigation.

A merger of the two companies would enable Psion to incorporate Amstrad's digital cellular telephone technology in the next generation of its handheld computers to create a range of wireless mobile devices for business and other users.

Mr David Potter, Psion's founder and chairman who has built the UK-based company into the worldwide leader in the handheld PC market, believes the next generation of handheld machines will combine the functions of a computer and mobile telephone.

These pocket-sized machines are expected to provide a wide range of voice and data services to their owners, including access to the Internet and electronic mail.

Psion's shares which have been buoyed in recent months by the success of its Psion Series 3 hand-held computers and strong results, closed down 25p a 350p while Amstrad's shares gained 36p to 184p.

The merger talks, apparently instigated by Amstrad a couple of mouths ago, come in the wake of Mr Sugar's attempts to reorganise the company and focus it on high-growth technology businesses and away from Amstrad's traditional consumer electronics operations.

Mr Sugar whose other business interesta include Tottenham Hotspur, the English Premier League football club he also chairs, never felt particularly comfortable managing Amstrad, or dealing with the City and is understood to want to spend more time "doing deals and the other things he is good at".

Colin Beere

Alan Sugar of Amstrad: wants to spend more time doing deals

# Pearson puts local papers up for sale

By David Blackwell

Pearson, the information, publishing and entertainment group which owns the Financial Times, yesterday slapped a for sale notice on Westminster Press, its UK regional newspaper business.

No price was given, but recent deals to the sector suggest the business could fetch more than £300m. Shares in the group, which until recently denied Westminster Press was for sale, rose 4p to 664p on the news.

Mr John Makinson, Pearson finance director, described the sale as "a sensible way to free resources" in order to achieve better positions in the group's chosen toternational markets of information, education and entertainment.

City analysts said Westminster Press was probably the most logical disposal Pearson could make. It was non-core, and in spite of its profitability the regional newspaper industry was in long term decline.

"It'a positive," said one analyst. "Pearson is finally doing something, but there is a long way to go before they win back the confidence of the City."

## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Business Post | Yr to Mar 31 | 65.5 | (51.3) | 13 | (8.14) | 17.4 | (12.2) | 5.7 | Aug 2 | 4.1 | 8.7 | 6 |
| Chester Water | Yr to Mar 31 | 6.22 | (6.15) | 2.56 | (2.53) | 14.7 | (13.6) | 4.24 | July 25 | 3.9 | 6.36 | 5.85 |
| Chloride | Yr to Mar 31 ★ | 128 | (110.6) | 6.97♥ | (0.318L♠) | 2.19 | (0.85L) | 0.317 | Aug 22 | 0.2 | 0.45 | 0.3 |
| Clayhithe | Yr to Mar 31 | 33.1 | (33.8) | 2.11 | (1.74) | 9.1 | (6.7) | 2.57 | Aug 23 | 2.25 | 3.45 | 3.05 |
| DBS Management | Yr to Mar 31 | 77.1 | (55.5) | 3.38 | (2.28) | 31 | (24.3) | 6.5 | Aug 16 | 6 | 12 | 6 |
| Debenham Tewson | Yr to Apr 30 | 59.6 | (58.2) | 2.28♠ | (3.65) | 2.78 | (5.43) | 0.9 | Sept 13 | 2 | 1.5 | 3.5 |
| Dwyer Estates | 6 mths to Mar 31 | 3.35 | (3.2) | 1.21♠ | (0.881) | 2.2 | (1.6) | 0.4 | July 30 | 0.375 | - | 1.175 |
| Evans of Leeds | Yr to Mar 31 | 26.6 | (24.7) | 11.5 | (10.7) | 6.43 | (6.32) | 2.12 | Aug 16 | 1.92 | 3.08 | 2.79 |
| Halma | Yr to Mar 30 | 173.7 | (153.7) | 33.6 | (29.2) | 8.58 | (7.45) | 1.556 | Aug 19 | 1.296* | 2.564 | 2.136* |
| Heavitree Brewery § | 6 mths to Apr 30 | 4.21 | (4.03) | 0.846 | (0.707) | 6.2 | (6.5) | 3 | Aug 2 | 2 | - | 5.75 |
| Howden | Yr to Apr 30 | 473.1 | (438.2) | 42.9♥ | (30.6) | 11.5 | (7.6) | 1.95 | Oct 1 | 1.81 | 2.9 | 2.7 |
| Morrison Construct. | Yr to Mar 31 | 209.8 | (218.4) | 11.4 | (7.63) | 13.12† | (10.22ⵋ) | 3.05 | Aug 1 | - | 3.05 | - |
| MS Intl | Yr to Apr 27 ☐ | 35.1 | (29.6) | 0.51 | (0.893L) | 1.1 | (3.2L) | 0.5 | Sept 9 | 0.5 | 0.8 | 0.5 |
| Norbain | Yr to Apr 30 | 72.5 | (56.7) | 5.34 | (4.16) | 34.08† | (29.12) | 5 | Oct 1 | 5 | 7.5 | 5 |
| Northamber | Yr to Apr 30 | 233 | (178) | 5.57 | (3.11) | 27.2† | (12.4) | 1.6 | Oct 1 | 1.2 | 2.2 | 1.7 |
| Novo | Yr to Mar 31 | 17.7 | (17.4) | 2.93 | (2.33) | 3.81† | (3.14) | 1 | Oct 3 | 0.8 | 1.4 | 0.9 |
| St James Beach | Yr to Mar 31 | 16.2 | (10.4) | 1.41 | (1.92) | 4.55 | (8.68) | 3.3 | Sep 2 | 2.75 | 4.8 | 4 |
| Scotswood Inds ф | 6 mths to Mar 31 | 1.51 | (0.358) | 0.024♠ | (0.058) | 0.27 | (0.95) | 0.5 | Oct 1 | 0.5 | - | 1 |
| Soundtracks § | 6 mths to Apr 30 | 2.96 | (3.25) | 0.03L | (0.153) | 0.3L | (1.02) | nil | - | 0.92 | - | 0.92 |
| Tinsley Robor | Yr to Mar 31 | 47.1 | (35.1) | 3.51 | (2.24) | 6.5 | (5.3) | 1.5 | Aug 30 | 1.167 | 2.25 | 1.5 |

| Investment Trusts | | NAV (p) | | Attributable Earnings (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Baring Emerging ☆ | Yr to Apr 30 ♦ | 97 | (72) | 0.14L | (0.472L) | 11L | (38L) | nil | - | nil | nil | nil |
| Fleming Intl High | Yr to May 31 | • | | • | | • | | 2.85 | Aug 6 | 2.7 | 4 | 3.7 |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. *Equivalent after allowing for scrip issue. ⵋNotional. фAim stock. §USM stock. ☆US currency. ♦Comparatives for nine months. ☐ Comparatives restated.

Brendan Corr

Johnny Johnsen (left) chief executive, and John Jackson, chairman: good performance in Europe

# Howden held back by slack demand and loss at fan arm

By Geoff Dyer

Losses at its North American fans business held back the increase in annual profits at Howden, the Scottish industrial equipment manufacturer, to a modest 7 per cent before exceptionals.

Pre-tax profits were £42.9m (£30.6m), including a £10.3m profit from the sale of a 43 per cent stake in Howden Africa Holdings, which was floated in Johannesburg in March.

Operating profits in the year to April 30 were 9 per cent higher at £37.2m after an improved performance in Europe compensated for the downturn in North America.

The shares rose 6½p to 74½p.

Mr Alan Maclachlan, director of corporate services, said that the group, which saw gearing drop from 35 per cent to 17 per cent, was considering a number of acquisitions in Asia and Europe.

Profits in North America fell to £700,000 (£9.8m) after Howden Fan recorded losses of more than £2m because of a strike and reduced sales of power station fans.

Mr Maclachlan said that the business would return to profitability this year, but would take two years to recover fully.

The European division lifted profits 66 per cent to £28.8m after a higher contribution from all the businesses, although the German tunnel boring machine company continued to suffer from low orders. The group cautioned that market conditions in Europe, particularly Germany, were becoming increasingly difficult.

Earnings per share were 11.5p (7.6p), and 8p before exceptionals. The recommended final dividend is 1.95p (1.81p) making 2.9p (2.7p) for the year, a 7 per cent increase.

# Fear of crime lifts Norbain

By Jane Martinson

The fear of rising crime helped lift pre-tax profits 28 per cent at Norbain, the closed-circuit television supplier, from £4.16m ($6.36m) to £5.34m.

Organic growth was the main factor behind a 28 per cent increase in sales to £72.5m (£56.7m) in the year to April 30. Operating profits also rose 28 per cent, to £5.83m (£4.54m).

The shares rose 13p to a year-high of 538p yesterday.

Mr Mick Daw, managing director, said demand had been strongest in city centres, hospitals and car parks. There had also been more demand from schools, particularly after the Dunblane tragedy.

"It's the lack of a feelgood factor in society," he said. "People want to feel that they are getting protection."

Police forces were also installing more circuits.

Although the group expects UK demand to be buoyant for the foreseeable future it is keen to expand in Europe. Mr Daw said that the impact of the Irish problems had meant that the UK had been far readier to consider CCTV. He expected this to change, as the economies of both France and Germany worsened.

The group's French division was expected to make a loss in the current year, he said, although it was already benefiting from a change of management. The group was considering acquisitions in foreign markets.

The company, which joined the main market a year ago, paid £2.6m for the UK-based AlarmExpress, an alarm distributor, in March this year.

The purchase, which had a marginal effect on sales, increased net debt to about £4m and gearing more than doubled from 13 per cent to 31 per cent.

A final dividend of 5p raises the total 50 per cent to 7.5p.

## COMMODITIES AND AGRICULTURE

# 'Reform needed to sustain Asian gold boom'

By Kenneth Gooding, Mining Correspondent, in Venice

The Asian jewellery industry was one of the great success stories of the past decade. Production of gold jewellery increased from 277 tonnes in 1986 to 1,133 tonnes in 1995 and the region's share of world output jumped from 30 per cent to 50 per cent, Mr Michael Kile, manager, business development, Gold Corporation, pointed out yesterday.

He also insisted that Asia's traditional penchant for gold combined with a fast growing population, generally high savings rates and increasing disposable incomes should underwrite a rising gold demand trend into the early 21st century.

However, sustained consumer spending and gold demand growth was unlikely to emerge without market reform and liberalisation, he told delegates at the Financial Times World Gold Conference here.

"One key challenge facing Asian gold producers and consumers today is the removal of fiscal and regulatory barriers that prevent the wider ownership and freer movement of gold," he said.

Improvements were also needed to the regional gold product purity and distribution systems. Gold was still regarded as money by the fiscal authorities of countries like India, China and Vietnam and that explained why it was regulated so tightly and why the pace of Asian deregulation often appeared lethargic.

China was already the world's third largest gold jewellery consuming country - after India and the US - Mr Raymond Chan Fat Chu, chairman of Tem Fat Hing Fung (Holdings), pointed out. About one third was bought for investment rather than adornment.

China's central bank had issued more than 300 licences to gold jewellery fabricators and nearly 10,000 applications for jewellery retailing had been approved.

More than 70 per cent of Hong Kong's jewellery makers had joint ventures in China.

However, while China's gold policy was moving towards a free market mechanism, a transitional period was required before the country would have an open gold market.

In the meantime, while China had a gold shortage, its central bank would import to ensure the country's jewellery industry had enough raw material. The absorption of Hong Kong into China would "nurture a favourable environment for a bright future for the gold market in Hong Kong", he added.

Mr Philip Klapwijk, senior metals analyst at gold Fields Mineral Services, gave a warning that in the short term gold's increasing reliance on Asian jewellery demand was "something of a mixed blessing".

He said "apart from the risks posed to demand from political changes in the key consuming countries of China and India, there is the greater sensitivity to price of Asian demand. Demand for low mark-up investment jewellery usually falls when the gold price rises sharply".

It was natural, however, for gold jewellery manufacture to gravitate towards low wage countries in Asia and Latin America because it was much more labour intensive than other gold fabrication.

Mr Klapwijk said that in spite of the lack of interest from western investors and the challenge to the market of central bank sales, gold should not be written off.

"Only in the last decade has its monetary nature been called into question and, for upwards of 1bn people, gold, in whatever form, still is unquestionably a number one investment."

Mr Fabio Torboli, chief executive, Europe, at the World Gold Council, said the growth of the Asian jewellery industry had created a critical situation for most European manufacturers. Their output had remained static for 27 years while gold jewellery sales had doubled.

Nevertheless, Italy's jewellery manufacturers, at the heart of the European industry, had succeeded in maintaining control of their extended domestic market – as they considered other European countries – while at the same time increasing the level of export.

Present lack of interest in gold among western investors was illustrated by Mr Peter Palmedo, president, Sun Valley Gold Company, who pointed out that gold's "Daily Sentiment Index" was at its lowest point for ten years. He considered this "a timely signal to consider investment in gold near current price levels".

His organisation at present favoured investment in gold bullion, rather than gold company shares, while silver was an attractive alternative. North American gold company shares, although the most liquid market, were at present over-valued.

Mr James Riley Jnr, partner in J. Aron and Co. – Goldman Sachs, insisted that timing was all important with all investments. While gold had languished for most of the past year corn prices had doubled. He pointed that gold was competing with many other traded commodities for a share of "the vast amount of money out there looking for a return".

MARKET REPORT

# Selling hits white sugar futures

The London Commodity Exchange's August delivery white SUGAR futures contract ran into broad-based selling in heavier trading yesterday afternoon, sinking by more than $7 a tonne.

One trade house was reported to have been an active seller of the August contract but some producer selling was also reported.

Weakness in New York nearby raws contracts was thought to have fuelled London's downturn, but white sugar traders said there was just a general lack of demand for European Union sugars.

LCE COCOA futures gave up some early gains, but still ended slightly higher, supported by light hedge buying from the Far East and Africa, traders said.

"The market was steadier than expected this morning, rising on price-fixing from the Far East," said a trader.

Compiled from Reuters

# RTZ-CRA to sell Kembla coal mines

By Nikki Tait in Sydney

RTZ-CRA, the Anglo-Australian mining group, is to sell the two New South Wales coal mines that make up its troubled Kembla Coal & Coke subsidiary, and has called in Macquarie Bank Corporate Finance to handle the disposal.

Earlier this year, RTZ-CRA announced the sale of KCC's Illawarra coke business, the other main holding within the KCC unit, to ICC Holdings.

The two mines are West Cliff and Tahmoor, both of which have had problems during the past couple of years. In 1994, geological difficulties led to "substantial shortfalls in production", and the KCC unit operated at a loss. The parent company also blamed the poor performance on "extended industrial disruption".

During that year, KCC's sales fell to A$222m (US$175m), and total coal output to 2.2m tonnes compared with 3.9m in the previous 12 months. Total assets were put at A$306m.

Problems extended into 1995, although RTZ-CRA said that in the fourth quarter production "approached normal levels" and total production for the year was almost 2.5m tonnes.

However, in the wake of operational responses to these problems, Kembla claims that the business is now a "financially healthy underground hard coking coal producer".

"Over the last year, KCC has profitably completed a long-wall block at each mine," it says, adding that it is "confident of another good year".

RTZ-CRA's other Australian coal interests include Novacoal, Pacific Coal and Coal & Allied Industries.

**LME WAREHOUSE STOCKS**
(As at Thursday's close)
tonnes

| | | |
|---|---|---|
| Aluminium | -525 | to 902,725 |
| Aluminium alloy | +100 | to 86,200 |
| Copper | -2,350 | to 270,425 |
| Lead | -425 | to 92,125 |
| Nickel | -132 | to 32,304 |
| Zinc | -9,425 | to 575,375 |
| Tin | +40 | to 10,560 |

# Colombian agriculture struggles for survival in an insecure environment

**Sarita Kendall on a sector that has to contend with guerrilla violence as well as the vagaries of the weather and the market**

Agriculture has become a risky business in Colombia, not so much because farmers must contend with fluctuating rainfall and prices, but because guerrilla violence has deepened and spread to nearly two thirds of the nation's rural areas. Such a high level of insecurity makes it especially difficult for the farm sector to adjust to liberalisation measures and the need for greater efficiency.

Following the introduction of lower tariffs cereal production plummeted, though most permanent crops weathered the transition fairly successfully. With e growth rate of 5.3 per cent in 1995, agriculture appeared to be recovering. But cereal production dropped by a further 12 per cent in the first half of 1996, while food imports jumped 77 per cent for the January to April period. The area sown with annual crops has fallen by 600,000 hectares in the past six years and some yield rates are also down.

Both commercial and peasant farmers agree that agriculture is in crisis and lay most of the blame on high interest rates and government neglect. The president closed a rural summit last month with promises of new legislation, land reform and social development for the 7m Colombians who lived in the countryside and were classified as "poor".

"There's no discipline, no stability of policies or public employees in the sector," said Rito Ariel Gomez, leader of the national peasants' association, ANUC. Weighing a hefty collection of documents in his hand, he went on: "We've had 22 meetings with all the institutions involved in rural development and these are the agreements – the real point is, they must be implemented and our participation ensured. . . a new law, for what?"

The increasing concentration of land ownership is one of the main causes of conflict. Over the past ten years drug traffickers and their associates have used land purchases to launder money, buying up some 6m hectares and turning most of them over to cattle pasture. "They are creating whole corridors in some areas, with paramilitary groups to defend ranches and neutralise the guerrillas," said a researcher at the centre for popular education and research, CINEP. "These months have been particularly violent, with a great many families displaced."

> The area sown with annual crops has fallen by 600,000 hectares in the past six years

The economic effects of rural violence, as well as kidnapping and regular extortion by guerrillas, have been underestimated, according to a study by the former presidential commissioner for peace, Jesus Antonio Bejarano. Until recently most violence occurred in "marginal" areas; but the number of guerrilla fronts increased from 14 to 105 between 1978 and 1994 and guerrilla influence now reaches into "developed" rural areas such as the coffee region.

With rising costs and a weaker domestic support price for coffee, less efficient growers began to switch to other products or move out. The coffee federation has reduced spending on social programmes and infrastructure and unemployment in the region has risen. Here too, drug traffickers have bought good land at low prices. Although increased productivity has kept coffee output steady at 12 to 13m bags a year, the region is not as prosperous as it used to be and fear of kidnapping keeps landowners away from their properties, affecting the quality of management.

The Bejarano study coins the phrase "unadministration" to describe this disintegration process, which is most visible in the northwestern, banana-growing region of Uraba. The murders of administrators and massacres of banana workers are part of the generalised violence in the area; producers are unwilling to risk further capital in plantations where supplies are often stolen and labour problems make it difficult to maintain agricultural standards – yet, against all odds, disease control has improved and banana exports from Uraba may be up during 1996.

Agricultural exports, excluding coffee, still contribute some 15 per cent of Colombia's foreign income and the sector is expected to grow by about 3.5 per cent this year. Mr Bejarano quotes some of the direct costs of violence – over 10,000 cattle stolen in 1995, 40,000 farmers paying extortion levies to the guerrillas and 500 landowners kidnapped – but indirect costs, such as the land left uncultivated, are difficult to quantify.

"It should be possible to salvage some social benefit from the situation," said Juan Manuel Ospina, director of the private sector agriculturalists' organisation. "Land prices are so depressed that there are good opportunities for land reform. What has become clear to all is that there is no point just distributing land without the tools and support to make it produce. The small farmer can and should become a small businessman."

The government is proposing to expropriate part of the land owned by traffickers and to use it for land reform programmes. If peasants sandwiched between the paramilitary and the guerrillas are to survive, let alone produce and market their crops successfully, such programmes would require far greater funding than is currently available. And if the poverty gap between the cities and the country is to be narrowed, the state institutions functioning in rural areas would have to be shaken out of the lethargy of recent years.

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE**
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1473.5-4.5 | 1511-2 |
| Previous | 1474-5 | 1511-12 |
| High/low | | 1516/1501 |
| AM Official | 1477-8 | 1515-6 |
| Kerb close | | 1504-5 |
| Open int. | 238,452 | |
| Total daily turnover | 40,588 | |

■ ALUMINIUM ALLOY ($ per tonne)

| | | |
|---|---|---|
| Close | 1260-70 | 1295-300 |
| Previous | 1258-63 | 1293-5 |
| High/low | | 1305/1295 |
| AM Official | 1262-5 | 1295-303 |
| Kerb close | | 1290-5 |
| Open int. | 5,125 | |
| Total daily turnover | 1,110 | |

■ LEAD ($ per tonne)

| | | |
|---|---|---|
| Close | 789-90 | 785-8 |
| Previous | 776.5-7.5 | 786-7 |
| High/low | 791 | 800/789 |
| AM Official | 791-2 | 798-9 |
| Kerb close | | 788-9 |
| Open int. | 33,757 | |
| Total daily turnover | 5,139 | |

■ NICKEL ($ per tonne)

| | | |
|---|---|---|
| Close | 7540-50 | 7655-60 |
| Previous | 7545-55 | 7660-70 |
| High/low | | 7730/7590 |
| AM Official | 7575-6 | 7685-90 |
| Kerb close | | 7590-5 |
| Open int. | 42,826 | |
| Total daily turnover | 17,220 | |

■ TIN ($ per tonne)

| | | |
|---|---|---|
| Close | 6235-45 | 6260-65 |
| Previous | 6180-200 | 6210-30 |
| High/low | | 6265/6230 |
| AM Official | 6235-7 | 6250-60 |
| Kerb close | | 6220-30 |
| Open int. | 15,791 | |
| Total daily turnover | 3,621 | |

■ ZINC, special high grade ($ per tonne)

| | | |
|---|---|---|
| Close | 1002.5-3.5 | 1031-1.5 |
| Previous | 996-7 | 1023-4 |
| High/low | 1004 | 1033/1027 |
| AM Official | 1003.5-4.5 | 1030.5-1.0 |
| Kerb close | | 1029-30 |
| Open int. | 70,354 | |
| Total daily turnover | 10,365 | |

■ COPPER, grade A ($ per tonne)

| | | |
|---|---|---|
| Close | 1905-10 | 1838-40 |
| Previous | 1864-9 | 1796-7 |
| High/low | 1930 | 1865/1745 |
| AM Official | 1930-1 | 1844-5 |
| Kerb close | | 1750-60 |
| Open int. | 198,512 | |
| Total daily turnover | 130,961 | |

■ LME AM Official £/$ rate: 1.5403
LME Closing £/$ rate: 1.5410

Spot: 1.5407 3 mths: 1.5401 6 mths: 1.5407 9 mths: 1.5417

■ HIGH GRADE COPPER (COMEX)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 95.00 | -5.00 | 102.00 | 95.00 | 300 | 921 |
| Jul | 84.65 | -4.65 | 01.00 | 84.20 | 5,250 | 11,081 |
| Aug | 83.95 | -4.50 | 89.80 | 83.30 | 184 | 1,898 |
| Sep | 83.25 | -3.95 | 89.00 | 83.00 | 4,967 | 17,537 |
| Oct | 83.45 | -3.95 | 88.70 | 85.00 | 76 | 1,085 |
| Nov | 83.65 | -3.40 | 88.50 | 87.30 | 10 | 960 |
| Total | | | | | 13,881 | 59,100 |

### PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

| Gold(Troy oz) | $ price | £ equiv | SFr equiv |
|---|---|---|---|
| Close | 384.70-385.10 | | |
| Opening | 384.70-385.10 | | |
| Morning fix | 384.85 | 249.740 | 486.143 |
| Afternoon fix | 385.10 | 249.918 | 480.765 |
| Day's High | 385.40-385.80 | | |
| Day's Low | 384.40-384.80 | | |
| Previous close | 384.10-384.50 | | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ..........4.31 6 months ..........4.19
2 months ..........4.30 12 months ..........4.00
3 months ..........4.29

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 336.10 | 517.75 |
| 3 months | 340.20 | 523.80 |
| 6 months | 344.45 | 530.65 |
| 1 year | 352.95 | 544.25 |

| Gold Coins | $ price | £ equiv. |
|---|---|---|
| Krugerrand | 383-386 | 257-259 |
| Maple Leaf | 395.85-398.35 | - |
| New Sovereign | 88-91 | 57-59 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

### ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

### GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

FUTURES DATA
All futures data supplied by CMS.

### SOFTS

■ COCOA LCE (£/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

[illegible]

### INDICES

■ REUTERS (Base: 18/9/31=100)

[illegible]

■ CRB Futures (Base: 1967=100)

[illegible]

■ GSCI Spot (Base: 1970=100)

[illegible]

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

### LONDON TRADED OPTIONS

[illegible]

### LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS (Pence/therm)

[illegible]

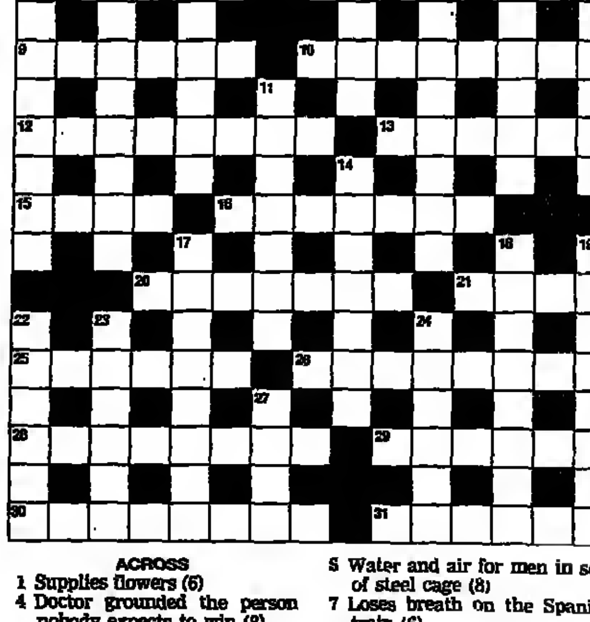
■ OTHER

[illegible]

**JOTTER PAD**

## CROSSWORD

No.9,104 Set by ADAMANT



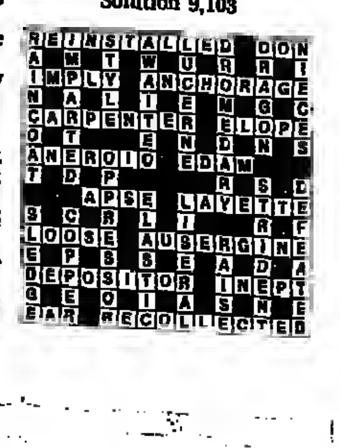
**ACROSS**

1 Supplies flowers (6)
4 Doctor grounded the person nobody expects to win (8)
9 Damages those left at the inn (6)
10 The second little trial was the most gratifying (8)
12 Perhaps count the fish for the young master (8)
13 Fail to follow lead of green movement on energy (6)
15 Run one event (4)
16 Takes the bones out of the steaks (7)
20 Put cover back on novel quandary (7)
21 Starts to rent it out to the group (4)
25 Going round over circuits including island run (6)
26 A broken reed, soundly thrashed and abandoned (8)
28 Recognise how to deny it if tortured (8)
29 Shin, for example, contains top class of beef (6)
30 Senior journalist resisted the changes (8)
31 Talk of society stunner, say (6)

**DOWN**

1 They are learning about Charles so leave Edward I out (8)
2 Burst out during month and get in the way (8)
3 Joint manoeuvres? On the contrary! (6)
5 Creature needing fresh shirt (4)
6 Water and air for men in sort of steel cage (8)
7 Loses breath on the Spanish train (6)
8 Where the tabloids pronounce on Germany? (6)
11 Someone who knows popular colour is coming back (7)
14 Going down in a straighter line, his job is often a drain (7)
17 Girl's bloomer is a catastrophe (8)
18 Is it fair moving the church, or a piece of trickery? (8)
19 Ruby pot scarf in river (8)
22 Hope to reach a high point in the church (6)
23 Woodland gods lie around in terrible sin (6)
24 Firm, you said, brought in outside salesman to get the money back (6)
27 In America diplomats find alien bodies (4)

Solution 9,103



## INTERNATIONAL CAPITAL MARKETS

# Asset-backed offering to raise FFr5bn

By Conner Middelmann and Antonia Sharpe

Growing interest among European investors for asset-backed securities spurred yesterday's launch of the largest French franc securitisation, Titriphar 06-96.

The four-tranche offering of floating-rate notes, totalling FFr5bn, is backed by long-term loans granted by Crédit Lyonnais to pharmacists seeking to buy or modernise their premises. The structure was enhanced by a cash deposit from the Crédit Lyonnais group, a letter of credit from Bayerische Vereinsbank and an unconditional guarantee from MBIA.

### INTERNATIONAL BONDS

According to lead manager Crédit Lyonnais, about 75 per cent of the FFr1.75bn A1 tranche was placed with French institutions; the FFr1bn A3 tranche was split evenly between France and the rest of Europe; and some 95 per cent of the FFr1.25bn A4 tranche went abroad. The FFr1bn A2 tranche was privately placed.

"More and more European investors are showing interest in securitised deals, partly because they offer an attractive pick-up for triple-A rated paper," a syndicate official said.

Another milestone transaction came for the City of New York, which became the first US municipality to issue a eurobond in a deal that could set a precedent for other such borrowers. The city launched $180.5m of bonds as part of the taxable debt it raises – around $200m a year – to finance projects that do not qualify for tax-exempt status under federal law. It is thought that, apart from diversifying its investor base, New York also achieved a significant cost saving by tapping the eurobond market. According to lead manager Citibank, the deal saw strong demand from funds across Europe.

Birmingham Midshires, the UK's 10th largest building society, launched £100m of five-year floating-rate notes, the first issue under its new £750m euro medium-term note programme, via SBC Warburg.

China is expected to launch its global bond as soon as today. Dealers were expecting a $700m five-year offering, although some said a 10-year tranche could raise the total amount to $1bn.

The five-year paper is expected to be priced at 80 to 85 basis points over Treasuries. CS First Boston and Morgan Stanley will be joint leads.

Germany's Siemens became the latest company to take advantage of the attractive funding rates available in the convertible bond market.

Its DM250m offering, via Deutsche Morgan Grenfell, was three-times oversubscribed within hours of launch as investors scrambled to buy the rare triple-A rated bonds. Siemens' strong credit rating also enabled it to set a large conversion premium of 25 per cent. The five-year bonds, which are non-callable for three years, have a coupon of 1 per cent and a yield to maturity of 4¼ per cent.

### NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Helaba Finance(f) | 200 | 6.75 | 99.943R | Jul 2000 | 0.225R | +5(j) | ABN Amro Hoare Govett |
| Morgan Guaranty Tst Co of NY | 200 | 6.625 | 99.871R | Jul 1998 | 0.1675R | +8(6¼%-98) | JP Morgan Securities |
| City of New York, A(l) | 62.5 | 6.375# | 99.941R | Aug 1997 | 0.15R | +40.8(6%-97) | Citibank International |
| City of New York, B(l) | 39 | 6.75# | 99.931R | Aug 1998 | 0.1675R | +47(WI 2yr) | Citibank International |
| City of New York, C(l) | 41 | 7.00# | 99.898R | Aug 1999 | 0.20R | +62(6⅞%-99) | Citibank International |
| City of New York, D(l) | 38 | 7.375# | 99.906R | Aug 2000 | 0.275R | +73(6¼%-00) | Citibank International |
| Foreningsbanken(a)‡ | 50 | (a1) | 99.914 | Jul 1998 | 0.10 | - | Salomon Brothers Intl |
| **D-MARKS** | | | | | | | |
| Siemens Capital Corp(b)§ | 250 | 1.00 | 85.53 | Jul 2001 | 2.50 | - | Deutsche Morgan Grenfell |
| **YEN** | | | | | | | |
| Tokai Finance(Curacao)(c)* | 23bn | - | - | - | - | - | Tokai Bank Europe |
| Bacob Overseas*‡ | 10bn | (d) | 103.05 | Jul 2000 | 0.20 | - | Nomura International |
| Swedish Export Credit(e)* | 10bn | 7.00# | 100.00 | Jul 1998 | 1.60 | - | IBJ Intl/Wako Intl |
| **STERLING** | | | | | | | |
| Birmingham Midshires B/S(f)‡ | 100 | (f1) | 99.88 | Jul 2001 | 0.15 | - | SBC Warburg |
| **FRENCH FRANCS** | | | | | | | |
| Titriphar 06-96, A1(g1)‡ | 1.755bn | (g2) | 100.00R | Apr 2000 | 0.15R | - | Crédit Lyonnais |
| Titriphar 06-96, A3(g3)‡ | 1bn | (g4) | 100.00R | Jan 2004 | 0.25R | - | Crédit Lyonnais |
| Titriphar 06-96, A4(g5)‡ | 1.245bn | (g6) | 100.00R | Jan 2005 | 0.25R | - | Crédit Lyonnais |
| **LUXEMBOURG FRANCS** | | | | | | | |
| Banque Générale du Lux(l) | 2bn | 6.50 | 102.85 | Dec 2004 | 2.00 | - | BGL |
| **CANADIAN DOLLARS** | | | | | | | |
| Canada Mtg & Housing Corp(l) | 200 | 7.25 | 99.77R | Sep 2001 | 0.25R | +1(7%-01) | RBC Dominion Securities |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| Queensland Treasury Corp* | 100 | 8.00# | 99.991 | Jul 2001 | 1.875 | - | Nomura International |
| International Finance Corp | 100 | 8.25 | 101.285 | Aug 1999 | 1.50 | - | CBA |
| **DANISH KRONER** | | | | | | | |
| Oeresundsforbindelsen(e) | 400 | 6.50 | 101.95 | Jun 2001 | 1.875 | - | Den Danske Bank |

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) $100m launched 18/6/96 increased to $150m. a1) 6-mth Libor flat. b) Conversion price: DM104.375. Callable from 17/7/99 at accreted value. Issuer has option after 2 yrs to deliver cash. c) 4-tranche issue. d) 2yr Yen/Yen swap rate, paid quarterly. e) Redeemed in Aus$. f) Callable from Jul 99 at par. f1) 3-mth Libor +⅛%. g1) Av life: 2.08 yrs. g2) 3-mth Pibor +15bp. g3) Av life: 6.07 yrs. g4) 3-mth Pibor +28bp. g5) Av life: 7.57 yrs. g6) 3-mth Libor +30bp. g7) Tranche A2 of FFr1bn was privately placed, terms undisclosed. l) Over interpolated yield. j) Long 1st coupon. s) Short 1st coupon.

# Regional equity derivatives from VTOB

By Kester Eddy in Budapest

VTOB, Austria's futures and options exchange, and Creditanstalt Investment Bank are to launch equity derivatives based on VTOB's new CECE Index family covering the Hungarian, Czech, Polish and Slovak markets.

Initially, products will include futures and options priced in US dollars on the Hungarian Traded Index (HTX, consisting of 10 leading shares), the Czech Traded Index (CTX, 10 shares); the Polish Traded Index (PTX, 14 shares), the Slovakian Traded Index (STX, 7 shares) and the CECE Index (a capitalisation-weighted index made up of the four national indices.)

Index values will be published from July 15 based on daily closing stock prices, with real time calculations expected in the autumn when trading begins on the VTOB. In the second phase, stock options on leading regional shares will be introduced in 1997.

The products have been developed for western institutional investors, which tend to see the region as a whole and have been seeking hedging instruments as central European bourses have developed over the past six years, the VTOB said.

For this reason, the CECE indices are based on a much narrower range of shares than the local market indices, concentrating only on the larger companies and most liquid stock. Nevertheless, they correlate well with local indices and generally cover more than 80 per cent of the respective market capitalisation, the VTOB added.

The CECE Index component stocks represent more than 80 per cent of total exchange turnover in all shares on the regional markets.

# Scottish Power replaces Southern Water bid finance

By Antonia Sharpe

A new £2.6bn revolving credit facility for Scottish Power, to support its improved and successful £1.67bn cash offer for Southern Water, has been the most notable new addition to the international syndicated loans market in the past week.

The new five-year facility will replace the £1.5bn facility that Scottish Power took out when it made its initial offer for Southern Water, as well as the £800m facility signed in August 1995 to finance its acquisition of Manweb, a regional electricity company.

### SYNDICATED LOANS

Royal Bank of Scotland, Union Bank of Switzerland, and ING Barings have underwritten the new deal. The opening margin is 27½ basis points over London interbank offered rate, guaranteed until the end of March 1997.

Thereafter, the margin should fall in line with a decline in the company's gearing, to the core margin of 20 basis points agreed on the previous facility. Of the total, £600m is repayable at the end of the third year and £2bn at the end of the fifth year.

Bankers involved in the transaction said banks that sub-underwrote the previous loan would be asked to participate in the new facility. They said banks that had supported a competing facility for Southern Electric, which had also wanted to buy Southern Water, would also be invited now that the conflict of interest had been removed.

Elsewhere, the sub-underwriting phase of the £500m facility for British Energy, the nuclear power generator which is about to be privatised, is proceeding smoothly. None of the 13 banks approached have so far declined to participate, though the deadline for responses is July 4.

Sub-underwriting should be completed by July 15, when the company floats, and the loan is set to go to general syndication shortly afterwards.

● Average margins on syndicated loans rose to 60 basis points in the first four months of 1996, compared with 43 basis points the same period of 1995, according to a report by the OECD, writes Richard Lapper.

For OECD borrowers, margins have risen from 32 to 52 basis points, while average margins for borrowers from non-OECD countries dropped from 129 basis points in 1995 to 90 basis points.

Economists at the OECD said highly creditworthy borrowers continued to raise funds at very low margins. They attributed the average rise in margins to two main factors: first, maturities have extended over the period from an average of four years and 11 months to five years and five months; second, a high proportion of loans were related to mergers and acquisitions activity, where margins are typically higher.

Overall syndicated credit volumes contracted to $58bn from $107bn in the first four months of 1995. Estimated new voluntary syndicated lending was down from $72.3bn to $39.1bn.

The fall in syndicated loan volume contrasted with a sharp rise in international bond and equity issuance. Issuance of international bonds rose from $131bn to $227bn and international placement of equities more than doubled to $15bn.

Euro medium-term note issues increased from $82bn to $148bn, and euro commercial peper programmes doubled from $10bn to $20bn.

# Fall in consumer confidence index lifts Treasuries

By Lisa Bransten in New York and Richard Lapper in London

Signs of deteriorating consumer confidence helped US Treasury prices rise by midday yesterday, despite worries that demand would be weak at the afternoon auction of two-year notes. The mood in the US spilled over into Europe where both core and peripheral markets made modest ground in thin trading.

Near midday, the benchmark 30-year US Treasury was up ¼ at 86⅞ to yield 7.056 per cent while the two-year note added $\frac{1}{32}$ to 99[illegible], yielding 6.276 per cent. The September 30-year Treasury bond future was [illegible] higher at 107.

Treasuries rose at mid-morning after the Conference Board said its index of consumer confidence fell to 97.6 in June from 103.5 in May. That suggested that consumer demand is less likely to exert inflationary pressures in coming months.

Reaction was muted to news that sales of existing homes continued to rise in May, in part because the figures were older than the consumer confidence data.

### GOVERNMENT BONDS

Mr Kevin Sluder, a senior fixed-income trader at First Chicago Securities, said jitters about a poor showing when the Treasury department auctions $18.75bn in two-year notes may have prevented stronger gains.

The Treasury is to sell $12.5bn in five-year paper today.

In Europe, volumes were again low, largely because of uncertainty about interest rates ahead of a Bundesbank meeting on Thursday and the FOMC meeting next week.

On Liffe, the September bund future gained a quarter of a point, settling at 95.30. The September long gilt rose by $\frac{7}{32}$ to settle at $105\frac{25}{32}$. On Matif, the September Notionnel gained 0.30 to settle at 121.28.

High-yielding markets again outperformed, with the expectation of imminent interest rate cuts again supporting prices in Italy, especially at the short end.

On Liffe, the September BTP future settled at 116.69, up 0.39. Spain tracked Italy, with the September bono closing at 100.14, up 0.36. Italian, Spanish and Swedish 10-year bond spreads over bunds narrowed by 4, 3 and 5 basis points respectively to 287, 234 and 165 basis points.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| | | Coupon | Red Date | Price | Day's change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| Australia | | 10.000 | 02/06 | 108.7840 | - | 8.86 | 8.92 | 8.77 |
| Austria | | 6.250 | 05/06 | 97.0900 | +0.190 | 6.58 | 6.59 | 6.42 |
| Belgium | | 7.000 | 05/06 | 101.4000 | +0.210 | 6.80 | 6.85 | 6.69 |
| Canada * | | 7.000 | 12/06 | 94.4200 | +0.410 | 7.79 | 7.87 | 7.73 |
| Denmark | | 8.000 | 03/06 | 103.5000 | +0.260 | 7.47 | 7.56 | 7.39 |
| France | BTAN | 5.750 | 03/01 | 100.2500 | +0.125 | 5.66 | 5.72 | 5.58 |
| | OAT | 7.250 | 04/06 | 104.7400 | +0.169 | 6.57 | 6.61 | 6.48 |
| Germany Bund | | 6.250 | 04/06 | 97.7300 | +0.210 | 6.57 | 6.61 | 6.45 |
| Ireland | | 8.000 | 08/06 | 101.8300 | +0.200 | 7.72 | 7.84 | 7.63 |
| Italy | | 9.500 | 02/06 | 101.7400 | +0.380 | 9.22† | 9.47 | 9.57 |
| Japan | No 140 | 6.600 | 06/01 | 118.9566 | −0.060 | 2.34 | 2.31 | 2.41 |
| | No 182 | 3.000 | 09/05 | 98.0874 | −0.100 | 3.27 | 3.28 | 3.32 |
| Netherlands | | 6.000 | 01/06 | 96.5800 | +0.300 | 6.49 | 6.55 | 6.35 |
| Portugal | | 11.875 | 02/05 | 118.5000 | +1.000 | 8.72 | 8.85 | 9.05 |
| Spain | | 8.800 | 04/06 | 99.2200 | +0.340 | 8.90 | 9.11 | 9.20 |
| Sweden | | 6.000 | 02/05 | 86.5694 | +0.439 | 8.23 | 8.44 | 8.41 |
| UK Gilts | | 8.000 | 12/00 | 102-24 | +1/32 | 7.26 | 7.37 | 7.42 |
| | | 7.500 | 12/06 | 96-17 | +4/32 | 7.98 | 8.10 | 8.04 |
| | | 9.000 | 10/08 | 108-26 | +5/32 | 8.11 | 8.24 | 8.17 |
| US Treasury * | | 6.875 | 05/06 | 99-25 | +11/32 | 6.90 | 6.86 | 6.69 |
| | | 6.000 | 02/26 | 86-28 | +15/32 | 7.06 | 7.05 | 6.90 |
| ECU (French Govt) | | 7.500 | 04/05 | 103.3600 | +0.330 | 6.97 | 7.08 | 6.80 |

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

### US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| | | One month | - | Two year | 6.29 |
| Prime rate | 8¼ | Two month | - | Three year | 6.48 |
| Broker loan rate | 7 | Three month | 5.23 | Five year | 6.69 |
| Fed.funds | 5⅞ | Six month | 5.44 | 10-year | 6.90 |
| Fed.funds at intervention | - | One year | 5.01 | 30-year | 7.06 |

### BOND FUTURES AND OPTIONS

**France**

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 121.24 | 121.28 | +0.30 | 121.30 | 121.24 | 93,196 | 146,334 |
| Dec | 119.92 | 119.98 | +0.28 | 120.04 | 119.88 | 1,815 | 18,100 |
| Mar | 118.74 | 118.80 | +0.26 | 119.74 | 118.74 | 2 | 741 |

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

| Strike Price | CALLS Jul | Aug | Sep | PUTS Jul | Aug | Sep |
|---|---|---|---|---|---|---|
| 120 | - | - | 1.73 | 0.01 | 0.16 | 0.45 |
| 121 | 0.34 | 0.70 | - | 0.07 | 0.48 | 0.82 |
| 122 | 0.02 | 0.27 | 0.55 | 0.78 | - | - |
| 123 | - | 0.05 | 0.24 | 1.75 | 1.80 | - |
| 124 | - | - | 0.09 | - | - | - |

Est. vol. total, Calls 8,459 Puts 9,403. Previous day's open int., Calls 134,881 Puts 142,132

**Germany**

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 95.18 | 95.30 | +0.25 | 95.34 | 95.13 | 91730 | 195817 |
| Dec | 94.26 | 94.38 | +0.26 | 94.36 | 94.26 | 197 | 1668 |

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

| Strike Price | CALLS Aug | Sep | Oct | Dec | PUTS Aug | Sep | Oct | Dec |
|---|---|---|---|---|---|---|---|---|
| 9500 | 0.66 | 0.91 | 0.63 | 0.93 | 0.36 | 0.61 | 1.25 | 1.55 |
| 9550 | 0.39 | 0.64 | 0.44 | 0.73 | 0.59 | 0.84 | 1.56 | 1.85 |
| 9600 | 0.20 | 0.42 | 0.30 | 0.56 | 0.90 | 1.12 | 1.92 | 2.16 |

Est. vol. total, Calls 14240 Puts 12160. Previous day's open int., Calls 119192 Puts 139165

**Italy**

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 116.66 | 116.69 | +0.39 | 116.94 | 116.55 | 31082 | 69428 |
| Dec | 116.05 | 115.99 | +0.39 | 116.05 | 116.05 | 28 | 284 |

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

| Strike Price | CALLS Sep | Dec | PUTS Sep | Dec |
|---|---|---|---|---|
| 11650 | 1.48 | 1.91 | 1.24 | 2.42 |
| 11700 | 1.17 | 1.67 | 1.48 | 2.68 |
| 11750 | 0.96 | 1.48 | 1.77 | 2.97 |

Est. vol. total, Calls 1672 Puts 1342. Previous day's open int., Calls 67996 Puts 56652

**Spain**

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 100.13 | 100.14 | +0.36 | 100.43 | 100.06 | 65,904 | 61,087 |

**UK**

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 106-23 | 106-28 | +0-07 | 106-28 | 106-23 | 1154 | 7849 |
| Sep | 105-21 | 105-25 | +0-07 | 105-26 | 105-18 | 28209 | 110916 |

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

| Strike Price | CALLS Aug | Sep | Oct | Dec | PUTS Aug | Sep | Oct | Dec |
|---|---|---|---|---|---|---|---|---|
| 105 | 1-10 | 1-33 | 1-15 | 1-47 | 0-24 | 0-47 | 1-29 | 1-61 |
| 106 | 0-37 | 0-61 | 0-53 | 1-19 | 0-51 | 1-11 | 2-03 | 2-33 |
| 107 | 0-14 | 0-34 | 0-34 | 0-61 | 1-28 | 1-48 | 2-48 | 3-11 |

Est. vol. total, Calls 2006 Puts 1615. Previous day's open int., Calls 13065 Puts 15271

**Ecu**

■ ECU BOND FUTURES (MATIF) ECU100,000

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 90.46 | 90.60 | +0.30 | 90.62 | 90.62 | 5,085 | 6,093 |

**US**

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 107-05 | 107-16 | +0-13 | 107-20 | 107-03 | 81,496 | 420,253 |
| Dec | 106-20 | 107-02 | +0-14 | 107-06 | 106-20 | 175 | 15,872 |
| Mar | 106-19 | 106-19 | +0-12 | 106-19 | 106-10 | 7 | 2,479 |

**Japan**

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

| | Open | Close | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 118.48 | | | 118.55 | 118.48 | 1673 | 0 |
| Dec | 117.47 | | | 117.52 | 117.48 | 640 | 0 |

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

### FT-ACTUARIES FIXED INTEREST INDICES

| Price Indices UK Gilts | Tue Jun 25 | Day's change % | Mon Jun 24 | Accrued interest | xd adj. ytd | | Low coupon yield Jun 25 | Jun 24 | Yr. ago | Medium coupon yield Jun 25 | Jun 24 | Yr. ago | High coupon yield Jun 25 | Jun 24 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Up to 5 years (22) | 122.26 | 0.03 | 122.22 | 2.81 | 4.28 | 5 yrs | 7.38 | 7.39 | 8.10 | 7.43 | 7.44 | 8.20 | 7.51 | 7.52 | 8.28 |
| 2 5-15 years (19) | 145.66 | 0.07 | 145.57 | 2.22 | 5.84 | 15 yrs | 8.20 | 8.21 | 8.44 | 8.22 | 8.22 | 8.46 | 8.28 | 8.29 | 8.56 |
| 3 Over 15 years (8) | 160.27 | 0.08 | 160.14 | 3.12 | 5.43 | 20 yrs | 8.28 | 8.29 | 8.44 | 8.29 | 8.29 | 8.46 | 8.33 | 8.34 | 8.58 |
| 4 Irredeemables (6) | 182.08 | 0.07 | 181.95 | 2.23 | 8.12 | Irred.† | 8.32 | 8.32 | 8.48 | | | | | | |
| 5 All stocks (56) | 141.47 | 0.06 | 141.39 | 2.66 | 5.13 | | | | | | | | | | |

| Index-linked | | | | | | | Inflation 5% Jun 25 | Jun 24 | Yr. ago | Inflation 10% Jun 25 | Jun 24 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 Up to 5 years (1) | 197.71 | 0.04 | 197.62 | 1.47 | 4.43 | Up to 5 yrs | 2.70 | 2.72 | 3.50 | 1.16 | 1.17 | 1.85 |
| 7 Over 5 years (11) | 186.80 | 0.01 | 186.58 | 1.67 | 1.81 | Over 5 yrs | 3.83 | 3.83 | 3.74 | 3.62 | 3.61 | 3.54 |
| 8 All stocks (12) | 186.72 | 0.01 | 186.70 | 1.67 | 1.86 | | | | | | | |

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

### FT FIXED INTEREST INDICES

| | Jun 25 | Jun 24 | Jun 21 | Jun 20 | Jun 19 | Yr ago | High* | Low* |
|---|---|---|---|---|---|---|---|---|
| Govt. Secs. (UK) | 92.52 | 92.49 | 92.32 | 92.00 | 92.03 | 91.71 | 96.34 | 91.69 |
| Fixed Interest | 111.90 | 111.81 | 111.49 | 111.42 | 111.39 | 110.92 | 115.23 | 110.74 |

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

### GILT EDGED ACTIVITY INDICES

| | Jun 24 | Jun 21 | Jun 20 | Jun 19 | Jun 18 |
|---|---|---|---|---|---|
| Gilt Edged bargains | 66.2 | 69.5 | 75.9 | 77.0 | 102.0 |
| 5-day average | 78.1 | 75.9 | 77.5 | 77.5 | 77.7 |

## UK GILTS PRICES

| Notes | Yield Int | Red | Price £ + or - | 52 week High | Low |
|---|---|---|---|---|---|
| [illegible] | | | | | |

### Other Fixed Interest

| Notes | Yield Int | Red | Price £ + or - | 52 week High | Low |
|---|---|---|---|---|---|
| [illegible] | | | | | |

## FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 25

| | Issued | Bid | Offer | Chg. | Yield |
|---|---|---|---|---|---|
| **U.S. DOLLAR STRAIGHTS** | | | | | |
| Abbey Natl Treasury 6½ 03 | 1000 | 96 | 96¼ | +⅛ | 7.25 |
| ABN Amro Bank 7¼ 05 | 1000 | 98½ | 98⅝ | +⅛ | 7.82 |
| African Dev Bk 7¾ 23 | 500 | 94¼ | 94⅝ | +⅛ | 7.89 |
| Alberta Province 7⅝ 98 | 1000 | 100 | 102¼ | | 6.85 |
| Asian Dev Bank 6⅞ 05 | 750 | 95⅞ | 95⅞ | +⅛ | 7.30 |
| [illegible] | | | | | |
| Sweden 8 97 | 2500 | 105⅛ | 105¼ | | 4.03 |
| United Kingdom 7¼ 97 | 5500 | 104⅛ | 104¼ | | 3.89 |
| Volkswagen Intl Fin 7 00 | 1000 | 100 | 102½ | +⅛ | 6.63 |
| World Bank 0 15 | 2000 | 29⅞ | 30 | +⅛ | 6.40 |
| World Bank 5⅞ 00 | 3000 | 96½ | 96⅝ | +⅛ | 6.13 |
| **SWISS FRANC STRAIGHTS** | | | | | |
| [illegible] | | | | | |
| **YEN STRAIGHTS** | | | | | |
| [illegible] | | | | | |
| **OTHER STRAIGHTS** | | | | | |
| Abbey Natl Treasury 8 00 £ | 1000 | 99⅞ | 100 | +⅛ | 8.04 |
| British Land 8⅞ 23 £ | 150 | 89⅞ | 90¼ | +⅛ | 10.20 |
| Denmark 6½ 98 £ | 800 | 100⅛ | 100¼ | | 6.67 |
| Depfa Finance 7¼ 03 £ | 000 | 94½ | 94¾ | | 8.13 |
| EIB 8 00 £ | 1000 | 100¼ | 100⅞ | | 7.85 |
| Glaxo Wellcome 8¼ 05 £ | 500 | 101¼ | 101½ | | 8.54 |
| [illegible] | | | | | |
| **FLOATING RATE NOTES** | | | | | |
| [illegible] | | | | | |
| **CONVERTIBLE BONDS** | | | | | |
| [illegible] | | | | | |

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

## CURRENCIES AND MONEY

**MARKETS REPORT**

# Lira prepares for assault on key L1,000 level

By Philip Gawith

An otherwise unremarkable day on the foreign exchanges was enlivened by the spectacle of whether or not the lira would be able to make a sustained breach of L1,000 for the first time since August 1994.

The lira did briefly dip below L1,000 to reach L999.85, but closed the day in London at L1,002, from L1,006. The market has responded positively to the widespread expectation of a cut in interest rates, perhaps by as much as 50 basis points.

The lira's strength spread to other high-yielding currencies, with the Swedish krona and sterling also gaining ground. The krona closed at SKr4.329, the strongest level since January 1993.

The dollar had a steady day, finishing barely changed at DM1.5322 and Y109.085. The sterling trade weighted index closed at 86 from 85.9.

■ For those wondering why markets have been so quiet recently, Mr Larry Summers, the Deputy Secretary of the US Treasury, provided at least part of the answer in a speech earlier this week.

Discussing exchange market co-operation in the G-7, he said the focus had been more on "economic policies and fundamentals, and less on "explicit, formalised exchange rate arrangements". He said this approach was based on "the fundamental reality that the only path to enduring exchange market stability is through the pursuit of sound economic policies."

Mr Summers said all major exchange rate realignments of the floating rate era had been the consequence of some adverse policy mix or fundamental shift in one of the leading countries.

He said the G-7 had also been "more selective" in its use of intervention. "During the successful G-7 effort to reverse the potentially damaging moves in the major currencies of early 1995, the US monetary authorities intervened on only four occasions, less often than during any other year over the past decade."

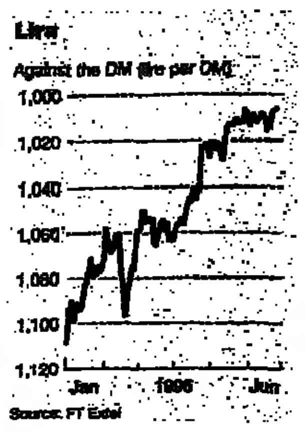
He also noted that the G-7 had produced fewer communiques, "but when we chose to send a formal co-ordinated signal – as we did in April 1995 when we called for "orderly reversal" of exchange rate movements – we made sure it meant something."

Mr Summers said the G-7 process had been successful in producing greater stability among the main currencies. "Implied volatilities have fallen to the levels we have not seen in some time, indeed to the lowest levels in almost ten years for dollar/D-Mark. The cloud of uncertainty and crisis has receded."

This year the dollar/yen has traded in a range just over six yen, with dollar/D-Mark in a 13 pfennig range. Analysts at Goldman Sachs in New York said that if this continued, it would be the narrowest since the late 1970's. The average yearly range since 1986 has been Y26 and 31 pfennigs.

**Lira**

Against the DM (lire per DM)




Source: FT Extel

The current one month implied volatility for dollar/yen is 7.6 per cent, and 7.1 per cent for dollar/D-Mark. This compares with historical figures of 10.7 per cent and 12 per cent respectively.

Mr Jim O'Neill, chief currency economist at Goldman, said economic analysis suggested the decline in volatility reflected the better balanced conditions of the world economy, particularly in terms of trade and inflation. "Those looking for a pickup in volatility must hope that these trends start to turnaround, or for a new economic shock to occur."

■ One of the policy successes of the past year has been the correction in the overvalued D-Mark. Mr Johann Wilhelm Gaddum, the Bundesbank vice-president, said the real external value of the D-Mark against the currencies of 18 industrial countries had fallen in May to levels seen in the 1993/4 business year.

The Bundesbank's trade weighted index of the D-Mark's value was 197.6 at the end of May, down 3.2 per cent from the end of 1995, but 0.1 per cent above the end of 1994.

■ Mr Brian Martin, currency strategist at Barclays in London, said the strength in the high-yielders suggested "investors remain very content to run with the carry-trades at the moment."

He said the lira was benefiting from the prospect of lower rates, which is buoying asset markets, and re-entry to the ERM. Noting that Italy's current account surplus has been falling, he said he doubted whether the currency could strengthen much further.

■ **Pound in New York**

| Jun 25 | – Latest – | – Prev. close – |
|---|---|---|
| £ spot | 1.5405 | 1.5405 |
| 1 mth | 1.5401 | 1.5401 |
| 3 mth | 1.5398 | 1.5399 |
| 1 yr | 1.5419 | 1.5424 |

■ **OTHER CURRENCIES**

| Jun 25 | £ | $ |
|---|---|---|
| Czech Rp | 42.4857 - 42.6241 | 27.5580 - 27.5660 |
| Hungary | 231.793 - 231.961 | 150.450 - 150.500 |
| Iran | 4624.20 - 4631.20 | 3000.00 - 3000.00 |
| Kuwait | 0.4616 - 0.4624 | 0.2995 - 0.2999 |
| Poland | 4.1930 - 4.1995 | 2.7230 - 2.7240 |
| Russia | 7637.95 - 7647.27 | 5000.00 - 5001.00 |
| UAE | 5.6571 - 5.6618 | 3.6725 - 3.6730 |

## POUND SPOT FORWARD AGAINST THE POUND

| Jun 25 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 16.6158 | +0.019 | 093 - 232 | 16.6386 | 16.5704 | 16.5648 | 2.3 | 16.5098 | 2.6 | - | - | 104.7 |
| Belgium | (BFr) | 48.5800 | +0.0616 | 548 - 050 | 48.6520 | 48.4490 | 48.485 | 2.3 | 48.295 | 2.3 | 47.505 | 2.2 | 106.4 |
| Denmark | (DKr) | 9.0906 | +0.0116 | 853 - 958 | 9.1026 | 9.0679 | 9.0769 | 1.9 | 9.0565 | 1.5 | 8.9497 | 1.6 | 107.2 |
| Finland | (FM) | 7.1637 | +0.0125 | 556 - 718 | 7.1770 | 7.1420 | 7.1593 | 0.7 | 7.1513 | 0.7 | - | - | 83.9 |
| France | (FFr) | 7.9997 | +0.0113 | 951 - 042 | 8.0105 | 7.9643 | 7.9874 | 1.8 | 7.9647 | 1.7 | 7.8713 | 1.6 | 108.7 |
| Germany | (DM) | 2.3609 | +0.0027 | 599 - 616 | 2.3646 | 2.3552 | 2.3565 | 2.3 | 2.3474 | 2.3 | 2.3087 | 2.2 | 108.0 |
| Greece | (Dr) | 373.437 | +0.608 | 239 - 635 | 373.822 | 372.235 | - | - | - | - | - | - | 67.2 |
| Ireland | (I£) | 0.9744 | +0.0017 | 734 - 753 | 0.9755 | 0.9719 | 0.9739 | 0.6 | 0.9727 | 0.7 | 0.9662 | 0.8 | 99.2 |
| Italy | (L) | 2364.70 | -7.96 | 335 - 613 | 2372.62 | 2359.06 | 2370.25 | -2.8 | 2380.1 | -2.6 | 2412.6 | -2.0 | 77.2 |
| Luxembourg | (LFr) | 48.5800 | +0.0616 | 549 - 050 | 48.6520 | 48.4490 | 48.485 | 2.3 | 48.295 | 2.6 | 47.61 | 2.2 | 106.4 |
| Netherlands | (Fl) | 2.6461 | +0.0029 | 447 - 474 | 2.6563 | 2.6395 | 2.64 | 2.8 | 2.626 | 2.7 | 2.5800 | 2.5 | 106.4 |
| Norway | (NKr) | 10.0776 | +0.022 | 695 - 856 | 10.0972 | 10.0585 | 10.0691 | 1.0 | 10.0521 | 1.0 | 9.9891 | 0.9 | 94.4 |
| Portugal | (Es) | 242.461 | +0.32 | 305 - 616 | 242.756 | 241.881 | 242.689 | -2.1 | 243.791 | -2.2 | - | - | 94.6 |
| Spain | (Pta) | 196.590 | +0.227 | 416 - 722 | 196.705 | 195.192 | 195.82 | -1.6 | 196.335 | -1.6 | 200.735 | -1.1 | 80.4 |
| Sweden | (SKr) | 10.2153 | -0.0252 | 042 - 263 | 10.2543 | 10.2013 | 10.2156 | 0.0 | 10.2157 | 0.0 | 10.2136 | 0.0 | 90.7 |
| Switzerland | (SFr) | 1.9471 | +0.0016 | 458 - 483 | 1.9512 | 1.9427 | 1.9421 | 3.1 | 1.9318 | 3.3 | 1.8831 | 3.3 | 110.2 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 86.0 |
| Ecu | - | 1.2460 | +0.0013 | 453 - 465 | 1.2479 | 1.2436 | 1.2447 | 1.3 | 1.2417 | 1.4 | 1.2284 | 1.4 | - |
| SDR† | - | 1.069400 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5380 | +0.0011 | 381 - 394 | 1.5435 | 1.5379 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.5452 | +0.0006 | 444 - 459 | 1.5471 | 1.5422 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.0947 | -0.0053 | 936 - 957 | 2.0981 | 2.0906 | 2.094 | 0.4 | 2.0905 | 0.6 | 2.0823 | 0.6 | 84.8 |
| Mexico | (New Peso) | 11.7255 | -0.0345 | 176 - 331 | 11.7761 | 11.7055 | - | - | - | - | - | - | - |
| USA | ($) | 1.5409 | +0.001 | 404 - 414 | 1.5440 | 1.5387 | 1.5405 | 0.3 | 1.5402 | 0.2 | 1.5431 | -0.1 | 97.1 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.9480 | -0.0006 | 467 - 492 | 1.9512 | 1.9443 | 1.9508 | -1.8 | 1.9558 | -1.6 | 1.9806 | -1.7 | 93.7 |
| Hong Kong | (HK$) | 11.9243 | +0.0099 | 196 - 289 | 11.9481 | 11.9060 | 11.9193 | 0.8 | 11.9046 | 0.7 | 11.8848 | 0.3 | - |
| India | (Rs) | 53.7775 | +0.0397 | 519 - 031 | 54.6820 | 53.4500 | - | - | - | - | - | - | - |
| Israel | (Shk) | 4.8905 | +0.0026 | 743 - 967 | 4.8940 | 4.8737 | - | - | - | - | - | - | - |
| Japan | (Y) | 168.089 | +0.084 | 981 - 196 | 168.500 | 167.630 | 167.384 | 5.2 | 165.874 | 5.3 | 159.469 | 5.1 | 134.3 |
| Malaysia | (M$) | 3.8507 | +0.0034 | 487 - 527 | 3.8562 | 3.8448 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.2712 | -0.0028 | 690 - 728 | 2.2773 | 2.2681 | 2.2762 | -2.6 | 2.2856 | -2.5 | 2.3195 | -2.1 | 107.0 |
| Philippines | (Peso) | 40.3465 | +0.0275 | 815 - 155 | 40.4157 | 40.2756 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.7792 | +0.004 | 771 - 812 | 5.7905 | 5.7709 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.1735 | +0.0026 | 723 - 746 | 2.1776 | 2.1700 | - | - | - | - | - | - | - |
| South Africa | (R) | 6.7068 | +0.0007 | 097 - 128 | 6.7213 | 6.6930 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1248.44 | -0.07 | 690 - 008 | 1253.01 | 1247.59 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 42.6337 | +0.1338 | 313 - 860 | 42.7056 | 42.5820 | - | - | - | - | - | - | - |
| Thailand | (Bt) | 39.0749 | +0.0243 | 566 - 932 | 39.1500 | 39.0210 | - | - | - | - | - | - | - |

† Rates for Jun 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Jun 25 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P. Morgan Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.7832 | +0.005 | 816 - 845 | 10.8035 | 10.7680 | 10.7587 | 2.2 | 10.7217 | 2.3 | 10.5392 | 2.3 | 104.6 |
| Belgium | (BFr) | 31.5270 | +0.0185 | 210 - 330 | 31.5790 | 31.4780 | 31.4836 | 2.1 | 31.367 | 2.2 | 30.817 | 2.3 | 106.1 |
| Denmark | (DKr) | 5.8995 | +0.0035 | 980 - 010 | 5.9097 | 5.8885 | 5.8885 | 1.5 | 5.875 | 1.7 | 5.806 | 1.6 | 106.5 |
| Finland | (FM) | 4.6491 | +0.005 | 453 - 528 | 4.6616 | 4.6303 | 4.6376 | 1.7 | 4.6308 | 1.6 | 4.5861 | 1.4 | 83.5 |
| France | (FFr) | 5.1916 | +0.0038 | 903 - 928 | 5.2005 | 5.1688 | 5.1809 | 1.5 | 5.1704 | 1.6 | 5.1219 | 1.4 | 108.2 |
| Germany | (DM) | 1.5322 | +0.0007 | 320 - 323 | 1.5350 | 1.5281 | 1.529 | 2.0 | 1.5239 | 2.2 | 1.4957 | 2.4 | 107.5 |
| Greece | (Dr) | 242.350 | +0.23 | 300 - 400 | 242.750 | 241.700 | 243.725 | -8.3 | 247.375 | -8.3 | 261.35 | -7.8 | 68.9 |
| Ireland | (I£) | 1.5815 | -0.0017 | 805 - 825 | 1.5876 | 1.5763 | 1.5837 | -0.4 | 1.5829 | -0.4 | 1.5744 | 0.4 | - |
| Italy | (L) | 1534.63 | -0.03 | 420 - 505 | 1538.54 | 1531.20 | 1546.41 | -4.7 | 1547.53 | -3.4 | 1570.38 | -2.3 | 78.4 |
| Luxembourg | (LFr) | 31.5270 | +0.0185 | 210 - 330 | 31.5790 | 31.4780 | 31.4585 | 2.0 | 31.3675 | 2.0 | 30.882 | 2.0 | 106.1 |
| Netherlands | (Fl) | 1.7172 | +0.0007 | 168 - 175 | 1.7221 | 1.7142 | 1.7161 | 2.3 | 1.7097 | 2.4 | 1.676 | 2.5 | 106.0 |
| Norway | (NKr) | 6.5401 | -0.0087 | 363 - 438 | 6.5550 | 6.5307 | 6.5426 | 0.5 | 6.5316 | 0.5 | 6.4951 | 0.7 | 97.6 |
| Portugal | (Es) | 157.350 | +0.1 | 300 - 400 | 157.800 | 157.150 | 157.555 | -2.4 | 158.255 | -2.3 | 160.4 | -1.9 | 94.8 |
| Spain | (Pta) | 126.860 | +0.08 | 810 - 910 | 126.960 | 126.710 | 129.05 | -2.3 | 128.54 | -2.1 | 131.05 | -1.7 | 80.1 |
| Sweden | (SKr) | 6.6294 | -0.0209 | 244 - 344 | 6.6522 | 6.6208 | 6.6613 | -2.0 | 6.6579 | -1.7 | 6.6999 | -1.1 | 90.0 |
| Switzerland | (SFr) | 1.2636 | +0.0001 | 632 - 640 | 1.2670 | 1.2615 | 1.26 | 3.4 | 1.2526 | 3.5 | 1.2161 | 3.6 | 109.6 |
| UK | (£) | 1.5409 | +0.001 | 404 - 414 | 1.5440 | 1.5387 | 1.5395 | 0.3 | 1.5402 | 0.2 | 1.5467 | -0.3 | 86.8 |
| Ecu | - | 1.2366 | +0.0004 | 865 - 370 | 1.2392 | 1.2335 | 1.236 | -0.7 | 1.2362 | -0.6 | 1.243 | -0.5 | - |
| SDR† | - | 0.69400 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9998 | - | 995 - 997 | 1.0001 | 0.9994 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.0028 | -0.0003 | 026 - 030 | 1.0030 | 1.0023 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.3594 | -0.0044 | 591 - 596 | 1.3668 | 1.3570 | 1.3592 | 0.1 | 1.3595 | 0.0 | 1.3629 | -0.2 | 84.0 |
| Mexico | (New Peso) | 7.6095 | -0.0275 | 070 - 120 | 7.6100 | 7.6050 | 7.771 | -25.6 | 7.956 | -18.2 | 9.1705 | -20.5 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | 98.0 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.2641 | -0.0012 | 637 - 645 | 1.2647 | 1.2627 | 1.2661 | -1.6 | 1.2696 | -1.7 | 1.2863 | -1.8 | 98.0 |
| Hong Kong | (HK$) | 7.7385 | -0.0008 | 380 - 390 | 7.7395 | 7.7375 | 7.7362 | -0.1 | 7.741 | -0.1 | 7.769 | -0.4 | - |
| India | (Rs) | 34.9000 | - | 000 - 000 | 35.4500 | 34.8000 | 35.06 | -5.2 | 35.355 | -5.2 | 36.825 | -5.5 | - |
| Israel | (Shk) | 3.2322 | -0.0005 | 282 - 362 | 3.2374 | 3.2322 | - | - | - | - | - | - | - |
| Japan | (Y) | 109.085 | -0.02 | 050 - 120 | 109.200 | 108.590 | 108.64 | 4.9 | 107.74 | 4.9 | 104 | 4.7 | 134.9 |
| Malaysia | (M$) | 2.4990 | -0.0003 | 985 - 995 | 2.4995 | 2.4978 | 2.4999 | -0.4 | 2.506 | -1.1 | 2.5288 | -1.2 | - |
| New Zealand | (NZ$) | 1.4738 | -0.0029 | 734 - 745 | 1.4760 | 1.4730 | 1.4769 | -2.5 | 1.4827 | -2.4 | 1.5073 | -2.3 | - |
| Philippines | (Peso) | 26.1850 | - | 800 - 200 | 26.2200 | 26.1500 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 3.7505 | - | 504 - 506 | 3.7506 | 3.7504 | 3.751 | -0.1 | 3.7517 | -0.1 | 3.755 | -0.1 | - |
| Singapore | (S$) | 1.4105 | +0.0007 | 102 - 108 | 1.4110 | 1.4087 | 1.407 | 3.0 | 1.401 | 2.7 | 1.3755 | 2.5 | - |
| South Africa | (R) | 4.3625 | -0.0025 | 500 - 550 | 4.3600 | 4.3495 | 4.4 | -13.1 | 4.49 | -12.6 | 4.8275 | -10.9 | - |
| South Korea | (Won) | 810.650 | -0.6 | 700 - 000 | 811.800 | 810.600 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 27.6680 | +0.068 | 430 - 930 | 27.6840 | 27.6400 | 27.673 | -0.2 | 27.678 | -0.1 | - | - | - |
| Thailand | (Bt) | 25.3685 | -0.0015 | 550 - 820 | 25.3830 | 25.3500 | 25.4572 | -4.7 | 25.681 | -4.8 | 26.5435 | -4.7 | - |

† SDR rate per $ for Jun 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 24: Base average 1990=100.

## WORLD INTEREST RATES

**MONEY RATES**

| June 25 | Over night | One month | Three mths | Six mths | One year | Lomb. Inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | 3¼ | 3¼ | 3¼ | 3¼ | 3¼ | 7.00 | 2.50 | - |
| week ago | 3⅛ | 3¼ | 3⅜ | 6½ | 3⅝ | 7.00 | 2.50 | - |
| France | 3⅜ | 3⅜ | 3⅜ | 3⅞ | 4⅛ | 3.60 | - | 5.80 |
| week ago | 3⅜ | 3⅜ | 3⅞ | 4⅛ | 4⅛ | 3.60 | - | 5.60 |
| Germany | 3⅛ | 3⅛ | 3⅛ | 3⅛ | 3⅝ | 4.50 | 2.50 | 3.30 |
| week ago | 3⅛ | 3⅜ | 3⅜ | 3⅜ | 3⅝ | 4.50 | 2.50 | 3.30 |
| Ireland | 5⅝ | 5⅝ | 5⅝ | 5¼ | 5⅝ | - | - | 6.25 |
| week ago | 5⅛ | 5⅝ | 5¼ | 5⅞ | 5⅝ | - | - | 6.25 |
| Italy | 8 | 8⅝ | 8½ | 8⅝ | 8⅛ | - | 9.00 | 9.30 |
| week ago | 8⅝ | 8⅝ | 8⅝ | 8⅝ | 8¼ | - | 9.00 | 9.30 |
| Netherlands | 2⅝ | 2⅞ | 2⅝ | 3⅛ | 3¼ | - | 3.00 | 3.30 |
| week ago | 2⅝ | 2⅞ | 2⅞ | 3 | 3⅛ | - | 3.00 | 3.30 |
| Switzerland | 2⅛ | 2⅝ | 2⅝ | 2⅝ | 2⅝ | 5.00 | 1.50 | - |
| week ago | 2 | 2⅝ | 2⅝ | 2⅝ | 2⅝ | 5.00 | 1.50 | - |
| US | 5⅛ | 5⅝ | 5⅝ | 5⅝ | 6⅛ | - | 5.00 | - |
| week ago | 5⅛ | 5⅝ | 5⅝ | 5⅝ | 6⅛ | - | 5.00 | - |
| Japan | ⅛ | ½ | ½ | ⅝ | 1⅛ | - | 0.50 | - |
| week ago | ⅜ | ½ | ½ | ⅝ | ⅞ | - | 0.50 | - |
| ■ $ LIBOR FT London | | | | | | | | |
| Interbank Fixing | - | 5⅝ | 5⅝ | 5⅝ | 6⅛ | - | - | - |
| week ago | - | 5⅝ | 5⅝ | 5⅝ | 6⅛ | - | - | - |
| US Dollar CDs | - | 5.13 | 5.28 | 5.46 | 5.82 | - | - | - |
| week ago | - | 5.13 | 5.21 | 5.42 | 5.80 | - | - | - |
| ECU Linked Ds | - | 4⅝ | 4⅝ | 4⅝ | 4⅝ | - | - | - |
| week ago | - | 4⅝ | 4⅝ | 4⅝ | 4⅝ | - | - | - |
| SDR Linked Ds | - | 3⅝ | 3⅝ | 3⅝ | 3⅝ | - | - | - |
| week ago | - | 3⅝ | 3⅝ | 3⅝ | 3⅝ | - | - | - |

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

**EURO CURRENCY INTEREST RATES**

| Jun 25 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | 3¼ - 3⅛ | 3⅜ - 3⅛ | 3⅜ - 3¼ | 3⅜ - 3¼ | 3½ - 3⅜ | 3⅞ - 6⅛ |
| Danish Krone | 3⅞ - 3⅝ | 3⅝ - 3⅞ | 3⅝ - 3⅞ | 4⅛ - 3⅞ | 4⅛ - 3⅞ | 4⅛ - 4⅛ |
| D-Mark | 3⅛ - 3⅛ | 3½ - 3⅜ | 3⅛ - 3⅛ | 3⅛ - 3⅛ | 3⅜ - 3⅛ | 3⅝ - 3⅜ |
| Dutch Guilder | 2⅞ - 2⅞ | 2⅞ - 2⅞ | 2⅞ - 2⅞ | 2⅞ - 2⅞ | 3⅛ - 3 | 3⅛ - 3¼ |
| French Franc | 3⅞ - 3⅞ | 3⅞ - 3⅞ | 3⅞ - 3⅞ | 3⅞ - 3⅞ | 4⅛ - 3⅞ | 4⅛ - 4⅛ |
| Portuguese Esc. | 7⅞ - 7⅞ | 7⅞ - 7⅞ | 7⅞ - 7¼ | 7⅞ - 7⅛ | 7¼ - 7⅛ | 7¼ - 7⅛ |
| Spanish Peseta | 7⅞ - 7⅞ | 7⅞ - 7¼ | 7⅞ - 7⅞ | 7⅞ - 7⅞ | 7⅞ - 7⅞ | 7⅞ - 7⅞ |
| Sterling | 5⅞ - 5¼ | 6¼ - 5⅝ | 5⅞ - 5⅞ | 5⅞ - 5⅞ | 5⅞ - 5⅞ | 6⅛ - 6 |
| Swiss Franc | 2⅛ - 2⅛ | 3⅛ - 2⅞ | 2⅞ - 2⅞ | 2⅜ - 2⅝ | 2⅜ - 2⅝ | 2⅞ - 2⅜ |
| Can. Dollar | 4⅞ - 4½ | 4⅜ - 4⅛ | 4⅜ - 4⅝ | 4⅞ - 4⅜ | 5⅛ - 4⅞ | 5⅛ - 5⅛ |
| US Dollar | 5⅜ - 5¼ | 5⅜ - 5¼ | 5⅛ - 5¼ | 5⅛ - 5⅜ | 5⅜ - 5⅛ | 6⅛ - 5⅞ |
| Italian Lira | 9⅛ - 8⅞ | 9⅛ - 8⅞ | 8⅞ - 8⅞ | 8¼ - 8⅛ | 8⅛ - 8 | 8⅞ - 7⅞ |
| Yen | ½ - ⅜ | ⅝ - ⅞ | ⅞ - ⅞ | ⅞ - ¾ | ⅞ - ¾ | 1⅛ - 1⅛ |
| Asian $Sing | 2⅞ - 2⅝ | 2⅞ - 2⅝ | 2¾ - 2⅝ | 2¾ - 2⅝ | 2¾ - 2⅝ | 2⅞ - 2⅞ |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate (FFr 5m)

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 95.89 | 95.92 | +0.06 | 95.93 | 95.91 | 20.524 | 63.937 |
| Dec | 95.68 | 95.74 | +0.08 | 96.74 | 95.73 | 13.492 | 37.154 |
| Mar | 95.43 | 95.49 | +0.05 | 95.50 | 95.48 | 2.711 | 24.090 |

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 96.59 | 96.60 | +0.03 | 96.60 | 96.58 | 21667 | 205080 |
| Dec | 96.39 | 96.39 | +0.03 | 96.40 | 96.37 | 21855 | 202893 |
| Mar | 96.05 | 96.07 | +0.04 | 96.08 | 96.04 | 19256 | 197160 |
| Jun | 95.67 | 95.69 | +0.06 | 95.70 | 95.65 | 10146 | 111673 |

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 92.08 | 92.05 | +0.03 | 92.09 | 92.01 | 13257 | 63344 |
| Dec | 92.37 | 92.37 | +0.07 | 92.39 | 92.32 | 5818 | 36818 |
| Mar | 92.42 | 92.42 | +0.07 | 92.45 | 92.30 | 2427 | 19026 |
| Jun | 92.30 | 92.29 | +0.05 | 92.32 | 92.28 | 827 | 10308 |

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 97.27 | 97.33 | +0.05 | 97.34 | 97.27 | 5895 | 40520 |
| Dec | 97.13 | 97.18 | +0.06 | 97.18 | 97.12 | 2324 | 18636 |
| Mar | 96.94 | 96.94 | +0.03 | 96.96 | 96.91 | 709 | 7985 |
| Jun | 96.67 | 96.67 | +0.03 | 96.70 | 96.67 | 80 | 818 |

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 99.08 | 99.08 | -0.02 | 99.08 | 99.08 | 60 | na |
| Dec | 98.71 | 98.72 | -0.02 | 98.72 | 98.71 | 650 | na |
| Mar | 98.40 | 98.41 | -0.02 | 98.41 | 98.40 | 200 | na |

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 95.58 | 95.60 | +0.04 | 95.60 | 95.58 | 497 | 7258 |
| Dec | 95.42 | 95.44 | +0.05 | 95.44 | 95.42 | 427 | 4427 |
| Mar | 95.21 | 95.23 | +0.04 | 95.23 | 95.21 | 231 | 3047 |
| Jun | 94.91 | 94.92 | +0.04 | 94.93 | 94.91 | 50 | 2211 |

* LIFFE futures also traded on APT

## CROSS RATES AND DERIVATIVES

**EXCHANGE CROSS RATES**

| June 25 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 18.71 | 16.47 | 4.860 | 2.005 | 4868 | 5.447 | 20.75 | 499.2 | 408.8 | 21.04 | 4.006 | 2.058 | 4.312 | 3.172 | 346.0 | 2.565 |
| Denmark | (DKr) | 53.44 | 10 | 8.799 | 2.597 | 1.071 | 2601 | 2.911 | 11.09 | 266.7 | 218.5 | 11.24 | 2.142 | 1.100 | 2.304 | 1.695 | 184.9 | 1.371 |
| France | (FFr) | 60.73 | 11.37 | 10 | 2.952 | 1.218 | 2957 | 3.308 | 12.60 | 303.2 | 248.3 | 12.78 | 2.434 | 1.250 | 2.618 | 1.926 | 210.2 | 1.558 |
| Germany | (DM) | 20.58 | 3.850 | 3.388 | 1 | 0.413 | 1002 | 1.121 | 4.269 | 102.7 | 84.12 | 4.329 | 0.825 | 0.424 | 0.887 | 0.653 | 71.20 | 0.528 |
| Ireland | (I£) | 49.88 | 9.334 | 8.213 | 2.424 | 1 | 2428 | 2.717 | 10.35 | 249.0 | 203.9 | 10.49 | 1.999 | 1.027 | 2.151 | 1.582 | 172.6 | 1.279 |
| Italy | (L) | 2.054 | 0.384 | 0.338 | 0.100 | 0.041 | 100. | 0.112 | 0.426 | 10.25 | 8.397 | 0.432 | 0.082 | 0.042 | 0.088 | 0.065 | 7.106 | 0.053 |
| Netherlands | (Fl) | 18.36 | 3.436 | 3.023 | 0.892 | 0.368 | 893.8 | 1 | 3.810 | 91.65 | 75.06 | 3.862 | 0.736 | 0.378 | 0.792 | 0.582 | 63.53 | 0.471 |
| Norway | (NKr) | 48.19 | 9.019 | 7.936 | 2.342 | 0.966 | 2346 | 2.625 | 10 | 240.6 | 197.0 | 10.14 | 1.932 | 0.992 | 2.078 | 1.529 | 166.8 | 1.236 |
| Portugal | (Es) | 20.03 | 3.749 | 3.299 | 0.974 | 0.402 | 975.3 | 1.091 | 4.157 | 100. | 81.90 | 4.214 | 0.803 | 0.412 | 0.864 | 0.635 | 69.32 | 0.514 |
| Spain | (Pta) | 24.46 | 4.578 | 4.028 | 1.189 | 0.490 | 1191 | 1.332 | 5.076 | 122.1 | 100. | 5.145 | 0.980 | 0.504 | 1.055 | 0.776 | 84.64 | 0.627 |
| Sweden | (SKr) | 47.55 | 8.895 | 7.827 | 2.310 | 0.953 | 2314 | 2.589 | 9.863 | 237.3 | 194.3 | 10 | 1.905 | 0.978 | 2.050 | 1.508 | 164.5 | 1.219 |
| Switzerland | (SFr) | 24.96 | 4.669 | 4.108 | 1.213 | 0.500 | 1215 | 1.359 | 5.177 | 124.6 | 102.0 | 5.249 | 1 | 0.514 | 1.076 | 0.791 | 86.34 | 0.640 |
| UK | (£) | 48.58 | 9.091 | 7.999 | 2.361 | 0.974 | 2365 | 2.646 | 10.08 | 242.5 | 198.6 | 10.22 | 1.947 | 1 | 2.094 | 1.541 | 168.1 | 1.246 |
| Canada | (C$) | 23.18 | 4.339 | 3.816 | 1.127 | 0.465 | 1128 | 1.263 | 4.811 | 115.6 | 94.80 | 4.878 | 0.929 | 0.477 | 1 | 0.736 | 80.24 | 0.595 |
| US | ($) | 31.52 | 5.899 | 5.191 | 1.532 | 0.632 | 1535 | 1.717 | 6.541 | 157.4 | 128.9 | 6.632 | 1.263 | 0.649 | 1.360 | 1 | 109.1 | 0.809 |
| Japan | (Y) | 28.90 | 5.408 | 4.758 | 1.405 | 0.579 | 1407 | 1.574 | 5.996 | 144.3 | 118.1 | 6.080 | 1.158 | 0.595 | 1.246 | 0.917 | 100. | 0.741 |
| Ecu | | 38.99 | 7.296 | 6.420 | 1.895 | 0.782 | 1898 | 2.124 | 8.090 | 194.6 | 159.4 | 8.202 | 1.563 | 0.803 | 1.681 | 1.237 | 134.9 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.6575 | 0.6551 | -0.0018 | 0.6575 | 0.6547 | 10,045 | 55,205 |
| Dec | - | 0.6592 | -0.0014 | 0.6606 | 0.6598 | 78 | 2,015 |
| Mar | - | 0.6648 | - | - | - | 1 | 23 |

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.9290 | 0.9267 | -0.0018 | 0.9293 | 0.9263 | 12,011 | 66,277 |
| Dec | - | 0.9388 | -0.0015 | - | 0.9388 | 16 | 3,608 |
| Mar | - | 0.9520 | - | - | - | 2 | 143 |

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.7970 | 0.7952 | -0.0022 | 0.7978 | 0.7950 | 8,976 | 36,544 |
| Dec | - | 0.8018 | -0.0018 | - | 0.8016 | 138 | 1,136 |
| Mar | - | 0.8100 | - | 0.8102 | - | 8 | 58 |

■ **STERLING FUTURES** (IMM) £62,500 per £

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 1.5406 | 1.5384 | -0.0010 | 1.5430 | 1.5378 | 6,920 | 40,602 |
| Dec | - | 1.5390 | -0.0010 | - | 1.5390 | 28 | 1,013 |
| Mar | - | 1.5400 | -0.0006 | - | 1.5400 | 1 | 8 |

## UK INTEREST RATES

**LONDON MONEY RATES**

| Jun 25 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 9 - 5⅞ | 5⅞ - 5⅝ | 5⅞ - 5⅞ | 5⅞ - 5¾ | 5⅞ - 5¾ | 6⅛ - 6 |
| Sterling CDs | - | - | 5⅞ - 5⅞ | 5⅞ - 5⅞ | 5¾ - 5⅞ | 6 - 5⅞ |
| Treasury Bills | - | - | 5⅞ - 5⅝ | 5⅞ - 5⅞ | - | - |
| Bank Bills | - | - | 5⅞ - 5⅝ | 5⅞ - 5⅞ | 5⅞ - 5⅞ | - |
| Local authority deps. | 5⅞ - 5⅞ | 5⅞ - 5⅞ | 5⅞ - 5⅝ | 5⅞ - 5⅞ | 5⅞ - 5⅞ | 6⅛ - 5⅞ |
| Discount Market deps | 6 - 5⅝ | 5¾ - 5⅝ | - | - | - | - |

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 2½ | 5½ | 5 | 5 | 4¾ |

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Jun 21, 5.5667pc. ECGD fixed rate Stg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 23, 1996, Scheme I & II 7.35pc. Reference rate for period May 1, 1996 to May 31, 1996, Scheme IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 94.23 | 94.23 | - | 94.24 | 94.22 | 6696 | 85975 |
| Dec | 94.08 | 94.06 | -0.01 | 94.09 | 94.06 | 9456 | 79744 |
| Mar | 93.72 | 93.71 | +0.01 | 93.72 | 93.69 | 7479 | 57433 |
| Jun | 93.24 | 93.23 | +0.01 | 93.26 | 93.22 | 2904 | 41512 |
| Sep | 92.85 | 92.84 | +0.01 | 92.87 | 92.82 | 1823 | 26236 |

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

| Strike Price | CALLS Sep | Dec | Mar | PUTS Sep | Dec | Mar |
|---|---|---|---|---|---|---|
| 9400 | 0.27 | 0.25 | 0.22 | 0.04 | 0.19 | 0.51 |
| 9425 | 0.09 | 0.13 | 0.13 | 0.11 | 0.32 | 0.67 |
| 9450 | 0.02 | 0.06 | 0.07 | 0.29 | 0.50 | 0.86 |

Est. vol. total, Calls 1656 Puts 3400. Previous day's open int., Calls 114355 Puts 92859

**EMS EUROPEAN CURRENCY UNIT RATES**

| Jun 25 | Ecu cen. rates | Rate against Ecu | Change on day | % +/- from cen. rate | % spread v weakest | Div. ind. |
|---|---|---|---|---|---|---|
| Spain | 162.493 | 161.091 | +0.057 | -0.86 | 2.22 | 6 |
| Ireland | 0.792214 | 0.790300 | +0.000778 | -0.24 | 1.58 | 2 |
| Netherlands | 2.15214 | 2.14760 | +0.00189 | -0.21 | 1.55 | 2 |
| Belgium | 39.3960 | 39.4269 | +0.0271 | 0.08 | 1.26 | -1 |
| Germany | 1.91007 | 1.91609 | +0.00147 | 0.32 | 1.02 | -3 |
| Austria | 13.4383 | 13.4857 | +0.0104 | 0.35 | 0.98 | -3 |
| Portugal | 195.792 | 196.741 | +0.132 | 0.48 | 0.85 | -3 |
| Denmark | 7.28580 | 7.37842 | +0.00684 | 1.27 | 0.07 | -8 |
| France | 6.40608 | 6.49186 | +0.00027 | 1.34 | 0.00 | -11 |
| NON ERM MEMBERS | | | | | | |
| Greece | 292.867 | 303.053 | +0.271 | 3.48 | -2.07 | - |
| Italy | 2106.15 | 1916.90 | -8.59 | -8.99 | 11.34 | - |
| UK | 0.786652 | 0.810933 | -0.000858 | 3.09 | -1.70 | - |

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

| Strike Price | CALLS Jul | Aug | Sep | PUTS Jul | Aug | Sep |
|---|---|---|---|---|---|---|
| 1.510 | 3.02 | 3.27 | 3.48 | 0.10 | 0.26 | 0.52 |
| 1.520 | 2.18 | 2.51 | 2.77 | 0.21 | 0.51 | 0.79 |
| 1.530 | 1.40 | 1.88 | 2.16 | 0.38 | 0.83 | 1.15 |
| 1.540 | 0.78 | 1.32 | 1.64 | 0.71 | 1.26 | 1.60 |
| 1.550 | 0.38 | 0.88 | 1.19 | 1.30 | 1.82 | 2.16 |

Previous day's vol., Calls 7,356 Puts 6,366. Prev. day's open int., Calls 182,732 Puts 177,907

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 94.15 | 94.18 | +0.02 | 94.18 | 94.16 | 19,016 | 401,809 |
| Dec | 93.81 | 93.83 | +0.03 | 93.84 | 93.80 | 31,043 | 421,640 |
| Mar | 93.62 | 93.64 | +0.03 | 93.64 | 93.61 | 32,848 | 287,835 |

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 94.69 | 94.70 | +0.02 | 94.70 | 94.69 | 331 | 5,746 |
| Dec | 94.43 | 94.43 | +0.02 | 94.43 | 94.43 | 18 | 1,653 |
| Mar | - | 94.20 | - | 94.18 | - | 10 | 47 |

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

| Strike Price | CALLS Jul | Aug | Sep | Dec | PUTS Jul | Aug | Sep | Dec |
|---|---|---|---|---|---|---|---|---|
| 9650 | 0.12 | 0.15 | 0.17 | 0.14 | 0.02 | 0.05 | 0.07 | 0.26 |
| 9675 | 0.01 | 0.03 | 0.06 | 0.06 | 0.18 | 0.18 | 0.20 | 0.42 |
| 9700 | 0 | 0 | 0.01 | 0.02 | 0.40 | 0.40 | 0.41 | 0.63 |

Est. vol. total, Calls 4361 Puts 5709. Previous day's open int., Calls 260821 Puts 285805

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

| Strike Price | CALLS Sep | Dec | Mar | PUTS Sep | Dec | Mar |
|---|---|---|---|---|---|---|
| 9750 | 0.07 | 0.11 | 0.12 | 0.24 | 0.45 | 0.68 |
| 9775 | 0.02 | 0.06 | 0.06 | 0.44 | 0.65 | 0.87 |

Est. vol. total, Calls 12 Puts 112. Previous day's open int., Calls 9172 Puts 4925

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

| Strike Price | CALLS Sep | Dec | Mar | PUTS Sep | Dec | Mar |
|---|---|---|---|---|---|---|
| 9200 | 0.28 | 0.63 | 0.75 | 0.23 | 0.26 | 0.33 |
| 9225 | 0.18 | 0.46 | 0.59 | 0.36 | 0.34 | 0.42 |
| 9250 | 0.09 | 0.33 | 0.46 | 0.54 | 0.46 | 0.54 |

Est. vol. total, Calls 4285 Puts 1400. Previous day's open int., Calls 35369 Puts 18225

## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 5.75 | Duncan Lawrie | 5.75 | Royal Bk of Scotland | 5.75 |
| Allied Trust Bank | 5.75 | Exeter Bank Limited | 6.75 | ●Singer & Friedlander | 5.75 |
| AIB Bank | 5.75 | Financial & Gen Bank | 7.00 | ●Smith & Williamson Secs | 5.75 |
| ●Henry Ansbacher | 5.75 | ●Robert Fleming & Co | 5.75 | Scottish Widows Bank | 5.75 |
| Bank of Baroda | 5.75 | Girobank | 5.75 | TSB | 5.75 |
| Banco Bilbao Vizcaya | 5.75 | ●Guinness Mahon | 5.75 | United Bank of Kuwait | 5.75 |
| Bank of Cyprus | 5.75 | Habib Bank AG Zurich | 5.75 | Unity Trust Bank Plc | 5.75 |
| Bank of Ireland | 5.75 | ●Hambros Bank | 5.75 | Western Trust | 5.75 |
| Bank of India | 5.75 | Heritable & Gen Inv Bk | 5.75 | Whiteaway Laidlaw | 5.75 |
| Bank of Scotland | 5.75 | ●Hill Samuel | 6.00 | Yorkshire Bank | 5.75 |
| Barclays Bank | 5.75 | C. Hoare & Co | 5.75 | | |
| Brit Bk of Mid East | 5.75 | Hongkong & Shanghai | 5.75 | ● Members of London Investment Banking Association | |
| ●Brown Shipley & Co Ltd | 5.75 | Julian Hodge Bank | 5.75 | * In administration | |
| Citibank NA | 5.75 | ●Leopold Joseph & Sons | 5.75 | | |
| Clydesdale Bank | 5.75 | Lloyds Bank | 5.75 | | |
| The Co-operative Bank | 6.00 | Meghraj Bank Ltd | 5.75 | | |
| Coutts & Co | 5.75 | Midland Bank | 5.75 | | |
| Credit Lyonnais | 5.75 | * Mount Credit Corp | 6.00 | | |
| Cyprus Popular Bank | 6.00 | NatWestminster | 5.75 | | |
| | | ●Rea Brothers | 5.75 | | |



















[illegible]

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

## BANKS, MERCHANT

## BANKS, RETAIL

## BREWERIES, PUBS & REST

## BUILDING & CONSTRUCTION

## BUILDING MATS. & MERCHANTS

## CHEMICALS

## DISTRIBUTORS

## DIVERSIFIED INDUSTRIALS

## ELECTRICITY

## ELECTRONIC & ELECTRICAL EQPT

## ELECTRONIC & ELECTRICAL EQPT - Cont.

## ENGINEERING

## ENGINEERING - Cont.

## ENGINEERING, VEHICLES

## EXTRACTIVE INDUSTRIES

## EXTRACTIVE INDUSTRIES - Cont.

## FOOD PRODUCERS

## FOOD PRODUCERS - Cont.

## GAS DISTRIBUTION

## HEALTH CARE

## HOUSEHOLD GOODS

## INSURANCE

## INVESTMENT TRUSTS

## INVESTMENT TRUSTS - Cont.

## INV TRUSTS SPLIT CAPITAL

## OTHER INVESTMENT

## INVESTMENT COMPANIES

## LEISURE & HOTELS

## INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

## OTHER INVESTMENT TRUSTS

[illegible]

## INVESTMENT COMPANIES

[illegible]

## LEISURE & HOTELS

[illegible]

## LEISURE & HOTELS - Cont.

[illegible]

## LIFE ASSURANCE

[illegible]

## MEDIA

[illegible]

## OIL EXPLORATION & PRODUCTION

[illegible]

## OIL, INTEGRATED

[illegible]

## OTHER FINANCIAL

[illegible]

## OTHER FINANCIAL - Cont.

[illegible]

## PAPER, PACKAGING & PRINTING

[illegible]

## PHARMACEUTICALS

[illegible]

## PROPERTY

[illegible]

## PROPERTY - Cont.

[illegible]

## RETAILERS, FOOD

[illegible]

## RETAILERS, GENERAL

[illegible]

## RETAILERS, GENERAL - Cont.

[illegible]

## SUPPORT SERVICES

[illegible]

## SUPPORT SERVICES - Cont.

[illegible]

## TELECOMMUNICATIONS

[illegible]

## TEXTILES & APPAREL

[illegible]

## TOBACCO

[illegible]

## TRANSPORT

[illegible]

## WATER

[illegible]

## AIM

[illegible]

## AIM - Cont.

[illegible]

## AMERICANS

[illegible]

## CANADIANS

[illegible]

## SOUTH AFRICANS

[illegible]



## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) at the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates for ... preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for ...
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a ...

FID (Foreign Income Dividend)
R Forecast annualised ...

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

### ♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT5215. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

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Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.
To order, call 0121 200 4678.
Reports published by ShareFinder Ltd.

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Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
An international service is available for callers outside the UK, annual subscription £250 stg.
Call 0171 873 4378 for more information on FT Cityline.
For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the internet at www.FT.com.

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on ( +44 171 ) 873 4378 for more details.

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

### BERMUDA (REGULATED)(**)

### GUERNSEY (SIB RECOGNISED)

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

### GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Atlantis Fund Management (Guernsey) Ltd

### IRELAND (SIB RECOGNISED)

LGT Asset Management Ltd

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd

Falcon Market Fund Plc

Framlington Investment Mngmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd

### IRELAND (REGULATED)(**)

### ISLE OF MAN (SIB RECOGNISED)

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

### ISLE OF MAN (REGULATED)(**)

### JERSEY (SIB RECOGNISED)

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

### JERSEY (REGULATED)(**)

### LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Fleming Group (x)

Schroder International Selection Fd - Contd.

### LUXEMBOURG (REGULATED)(**)

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## OTHER OFFSHORE FUNDS

## OFFSHORE INSURANCES

MANAGED FUNDS NOTES

هكذا من الأصل

# LONDON STOCK EXCHANGE

**MARKET REPORT**

# Faltering futures market drags down equities

By Peter John

With nothing to play for but football and tennis, London's equity dealers and investors kept a low profile for most of yesterday.

It was left to the futures traders to sell the derivatives contract on the Footsie and take the underlying market with it.

One senior sales specialist commented: "People have got their buying boots off. They're happy to buy on weakness but they need that weakness in order to be pulled in."

However, at 6pm the delayed reporting system showed that the day's turnover had reached more than 772m shares. That was the highest level for well over a week and far higher than on Monday, when customer business was worth only £1.6bn.

It was largely accounted for by late dealing in National Grid, which had turnover of 88m shares – more than 10 per cent of the day's total market volume.

In one sense the early lack of UK interest was slightly surprising as it followed a strong performance on Monday night from the Dow Jones Industrial Average, which also came in steadily at the beginning of US trading yesterday.

It was also surprising in the light of a comfortable performance from sterling, gilt-edged securities and other European equity markets.

On the other hand, the market torpor had its predictable side. The City tends to rate sport above most things, and Euro 96 football fever has smitten most dealers, while the opening matches at Wimbledon absorb the remainder.

Also, there is very little positive news to latch on to. The recent interest rate cut is seen as being the last, at least for some time, earnings downgrades are replacing upgrades, and this week offers no genuinely significant economic data.

Consequently, traders in the derivatives market took the opportunity to sell heavily, and at some points during the day the futures contract on the Footsie was priced almost 20 points below its estimated fair value premium.

It was the future that dragged the Footsie down by 26 in the morning, while late equity selling was seen as being responsible for the market's afternoon fall, which pushed the FT-SE 100 down again to close 31.3 lower at 3,679.5. The FT-SE Mid 250 index fell 48.8 to 4,384.5.

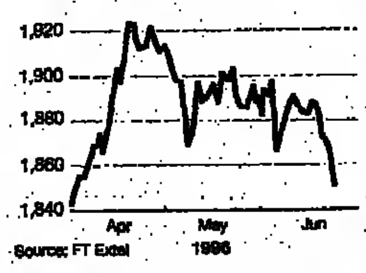
Most of the weakness was attributed to investor boredom, combined with marketmakers cutting their prices in order to find a level where some of the less jaded institutions might become interested.

There was also a growing feeling of fatigue as the quarter drew to a close. The majority of institutional investors appeared to be concentrating on writing their first-half reports rather than using their liquidity to buy stocks.

Mr Geoffrey Dicks, the economist at NatWest Securities, believes the chancellor of the exchequer is getting nervous that his attempts to boost a Lawson style "party" are not being returned by the electorate.

Not everyone, however, is suffused with gloom. Mr Richard Jeffrey, the economist with Charterhouse Tilney, is still confident that a traditionally dull June will herald a late flowering in July when the market could "attempt to scale the 4,000 level".

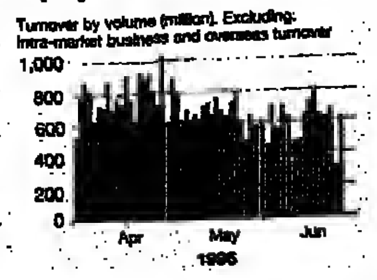
**FT-SE-A All-Share Index**




Source: FT Extel 1996

**Equity shares traded**

Turnover by volume (million). Excluding: intra-market business and overseas turnover




**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FT-SE 100 | 3679.5 | −31.3 | FT Ordinary index | 2714.1 | −21.9 |
| FT-SE Mid 250 | 4384.5 | −48.8 | FT-SE-A Non Fins p/e | 16.70 | 16.91 |
| FT-SE-A 350 | 1861.5 | −16.9 | FT-SE 100 Fut Jul | 3675.0 | −29.0 |
| FT-SE-A All-Share | 1849.55 | −16.24 | 10 yr Gilt yield | 7.98 | 8.01 |
| FT-SE-A All-Share yield | 3.88 | 3.84 | Long gilt/equity yld ratio: | 2.15 | 2.17 |

**Best performing sectors**

1 Alcoholic Beverages ....+0.1
2 Life Assurance ....+0.1
3 Engineering: Vehicles ....−0.0
4 Transport ....−0.1
5 Food Producers ....−0.1

**Worst performing sectors**

1 Diversified Industrials ....−2.5
2 Insurance ....−2.2
3 Building Matls & Merchs ....−1.8
4 Retailers: General ....−1.5
5 Telecommunications ....−1.5

# Grid dips as stake sold

Late trade in National Grid Group caused a buzz in the dying minutes of the session.

Turnover in the stock jumped to 88m shares, the second highest daily total since the company was privatised last year. The highest was recorded at the end of April when industrial conglomerate Hanson sold its 12.5 per cent holding.

Most of yesterday's trades were carried out in blocks of 9m at 160p a share. The stock finished 3 cheaper at 170½p.

It was not initially clear where the stock had come from but market specialists latched on to several theories.

The first pointed to HSBC James Capel. The broker bought the Hanson stake in April and then hedged its risk by entering into a derivatives contract with a subsidiary of the Athens-based Olayan Group.

The second theory pointed to Prudential selling its stake. However, analysts were sceptical that Prudential would offload shares reflecting a yield of more than 8.5 per cent.

But a later theory, which came from sources close to National Grid, suggested that one broker may have decided to go short of the stock.

Nevertheless, the company was busy scrambling for information late last night. Mr Peter Gavan, director of corporate affairs said: "We have no hard information that explains it as yet. We are making inquiries."

## BAA boosted

UK airports group BAA yesterday shook off its recent blues and moved strongly ahead boosted by a broker's recommendation.

The stock climbed 14 to 468p, making it the best performer in the premier FT-SE 100 listings. Active dealing in the shares brought turnover of 5.3m by the close.

Regulatory worries have seen the shares decline by around 18 per cent over the last two months, but Mr Chris Avery at Paribas Capital Markets believes the fall has been overdone and it is now time to buy the shares again.

He said: "Being in the middle of a regulatory review, the market has taken fright that the new regime will be tough, which is why the shares have fallen back. But I think the fears in the market have been overdone."

## GrandMet tipped

There may be light at the end of the tunnel for shares in Grand Metropolitan, with several brokers tipping the stock, including Lehman Brothers which reiterated its "buy" recommendation.

Panmure Gordon, in its morning note, said that after four years of underperformance the stock was "fair value for the moment and cheap if the news flow continues to improve".

The spirits sector has been adversely affected by concerns about pricing and analysts have been impressed by reports of some recent significant price increases at IDV, GrandMet's spirits arm. GrandMet advanced 7 to 419p.

In the brewing sector, Scottish & Newcastle fell 9½ to 656p and Bass declined 9 to 807p, movements that may have been influenced by a sector review from Kleinwort Benson. This examined the prospects for wholesale beer pricing and concluded that, with the bargaining position of major retailers strengthening, there would be no improvement in beer pricing for some time.

The review said that S&N, with 39 per cent of its operating profits from beer, was by far the most exposed.

The announcement by Prudential Corporation that it is to float its Mercantile & General subsidiary may not have been the market's best kept secret but it helped the shares.

The Pru ended the day 4 higher at 409p on relief that it is now less likely to launch a rights issue to fund future acquisitions.

HSBC James Capel estimates that M&G could be worth up to £1.5bn and, while the Pru is expected to keep control, a flotation – possibly in the US as the UK has no reinsurance sector – would certainly help the company's plan to buy a building society.

Mr Peter Davis, the chief executive, is believed to be keen on buying the Woolwich or Alliance & Leicester.

Consumer electronics group Amstrad was one of the day's main talking points after it was announced that the company is in talks with Psion that may lead to an offer for Mr Alan Sugar's group.

Amstrad jumped 36 to 184p, while Psion fell 25 to 350p.

Talk of senior management changes at BT saw the stock retreat 7½ to 349½p, in volume of 8.5m. One market specialist also pointed out that prospects for earnings growth were not as good as many had expected, which has prompted some selling of the stock, although for other investors it has simply been a case of profit-taking following recent strength.

Fears that US group AT&T plans to enter the UK market have also continued to overhang the shares.

In the food manufacturing sector, Unilever increased 8 to 1288p. Analysts said the rise was due to a combination of the company doing the rounds with major shareholders and a catch-up after the Dutch and US-quoted Unilever NV had moved ahead.

Suspension of shares in Wickes, the DIY chain, dominated the retail sector. The stock plunged 40 to 69p in initial dealings. The company had announced the discovery of "serious accounting problems" which are understood to involve its treatment of cash sums paid to it by suppliers in lieu of discounts. The concern is that Wickes may have included some of this cash as profit before the goods were sold.

Analysts rapidly rang around other DIY retailers to investigate whether the same problem may had affected them. In spite of reassurances there was still some concern, with Kingfisher, owner of B&Q, slipping to 628p and Boots, in the process of buying all of Do It All, shedding 10 to 577p. Analysts also said that the market was taking the view that Wickes could become a takeover target with potential players, including Do It All and B&Q.

Sears firmed a penny to 100p after a reasonably upbeat trading statement at the annual meeting. However, some individual shareholders at the meeting expressed a lack of confidence in the board due to its recent record.

Attention was once again fixed on BTR, and in spite of reassurances from the group's finance director in briefing on Monday, doubts about the dividend remained. The shares fell 9 to 246p.

Selling of Sun Life & Provincial continued, following Monday's public offer by UAP, the French parent. Sun Life's "when issued" stock fell 11 to 221p compared with an offer price of 235p. Volume was 14m.

Pearson was up 4 to 664p ahead of its announcement that it was putting Westminster Press, its UK regional newspaper subsidiary, up for sale.

**MARKET REPORTERS:**
Peter John, Joel Kibazo, Lisa Wood.

## FINANCIAL TIMES EQUITY INDICES

| | Jun 25 | Jun 24 | Jun 21 | Jun 20 | Jun 19 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| Ordinary Share | 2714.1 | 2735.9 | 2743.0 | 2749.4 | 2768.9 | 2492.8 | 2885.2 | 2696.7 |
| Ord. div. yield | 4.12 | 4.09 | 4.07 | 4.07 | 4.04 | 4.26 | 4.12 | 3.76 |
| P/E ratio net | 16.02 | 16.14 | 16.19 | 16.22 | 16.33 | 15.63 | 17.25 | 15.98 |
| P/E ratio nil | 15.93 | 16.05 | 16.10 | 16.13 | 16.24 | 15.39 | 17.03 | 15.76 |

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

| Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.00 | High | Low |
|---|---|---|---|---|---|---|---|---|---|---|
| 2733.7 | 2723.7 | 2715.2 | 2717.3 | 2716.0 | 2716.7 | 2720.3 | 2719.8 | 2712.5 | 2733.7 | 2711.5 |

| | Jun 25 | Jun 24 | Jun 21 | Jun 20 | Jun 19 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 28,156 | 29,173 | 28,193 | 30,159 | 28,770 | 20,535 |
| Equity turnover (£m)† | - | 1592.1 | 1714.7 | 1769.7 | 2167.9 | 1233.8 |
| Equity bargains† | - | 35,053 | 34,852 | 35,193 | 35,108 | 27,956 |
| Shares traded (ml)† | - | 544.1 | 615.3 | 320.5 | 685.2 | 523.1 |

†Excluding intra-market business and overseas turnover.

| | Jun 25 | Jun 24 | Jun 21 | Jun 20 | Jun 19 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| FT-SE AIM | 1092.90 | 1097.80 | 1102.40 | 1102.40 | 1105.70 | - | 1140.40 | 965.70 |

*For 1996.

■ **London market data**

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 310 | Total Highs | 53 | Total contracts | 41,942 |
| Total Falls | 1,068 | Total Lows | 61 | Calls | 14,885 |
| Same | 1,341 | | | Puts | 27,057 |

June 25 *Data based on Equity shares listed on the London Share Service.

## FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 3710.0 | 3675.0 | -29.0 | 3710.0 | 3665.0 | 16427 | 57189 |
| Dec | 3701.5 | 3697.0 | -29.0 | 3704.0 | 3701.5 | 52 | 1060 |

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | | 4400.0 | -50.0 | | | 0 | 3800 |

■ FT-SE 100 INDEX OPTION (LIFFE) (*3681) £10 per full index point

| | 3500 | | 3550 | | 3600 | | 3650 | | 3700 | | 3750 | | 3800 | | 3850 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | C | P | C | P | C | P | C | P | C | P | C | P | C | P | C | P |
| Jul | 181 | 5 | 136 | 9 | 93½ | 17 | 58½ | 31 | 31 | 56 | 13½ | 88 | 4½ | 131 | 1 | 180 |
| Aug | 186½ | 17 | 145½ | 25½ | 108½ | 38 | 78 | 57 | 52 | 81½ | 32 | 111 | 17 | 146½ | 7½ | 188½ |
| Sep | 202 | 30 | 165½ | 42 | 131 | 57½ | 100 | 77 | 75 | 101 | 52½ | 128½ | 38½ | 162 | 23 | 199 |
| Oct | 221½ | 42½ | 186 | 55 | 152 | 72½ | 120 | 90 | 92½ | 112½ | 69 | 138½ | 51½ | 172 | 35 | 206½ |
| Dec† | 253 | 63 | | | 188½ | 97 | | | 132½ | 140½ | | | 88½ | 194½ | | |

Calls 4,798 Puts 16,051

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

| | 3525 | | 3575 | | 3625 | | 3675 | | 3725 | | 3775 | | 3825 | | 3875 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Jul | 157 | 7 | 113 | 12½ | 74 | 23 | 42½ | 41½ | 20½ | 69½ | 7½ | 106 | 2 | 150 | 1 | 198½ |
| Aug | 168 | 21 | 127 | 31½ | 93 | 47 | 63 | 67 | 40½ | 93½ | 23½ | 126 | 12½ | 164½ | 6 | 207½ |
| Sep | 183 | 35 | 147 | 48½ | 118 | 56 | 85 | 85 | 80 | 109½ | 41 | 139½ | 26½ | 174½ | 19½ | 213½ |
| Oct | 240½ | 73½ | | | 175½ | 105½ | | | 123 | 150 | | | 79½ | 203½ | | |
| Dec† | 263½ | 105½ | | | 224½ | 142½ | | | 176 | 183½ | | | 124 | 233 | | |

Calls 1,647 Puts 3,796 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1996 High | 1996 Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - | F.P. | 3.78 | 65 | 43 | Biocompatibles W | 46 | -3 | - | - | - | - |
| 90 | F.P. | 10.1 | 108 | 98 | †Carisbrooke | 100 | | - | - | - | - |
| - | F.P. | - | 11 | 9¼ | Carlisle Wrts | 9¼ | | - | - | - | - |
| - | F.P. | 107.1 | 220 | 208 | City Technology | 220 | | - | - | - | - |
| - | F.P. | 17,853 | £37⅛ | £35⅛ | Elect Data Sys | [illegible] | | - | - | - | - |
| 115 | F.P. | 46.9 | 156 | 130 | Eurodis Telecom | 151 | | - | - | - | - |
| - | F.P. | 42.7 | 138 | 115 | †Fiberweb Group | 115 | -3 | - | - | - | - |
| 100 | F.P. | 94.5 | 97 | 91½ | Fidelity Asian V | 92 | | - | - | - | - |
| - | F.P. | 7.40 | 37 | 32 | Fidelity Asn Wts | 36 | | - | - | - | - |
| 60 | F.P. | 3.15 | 65 | 63 | †Fieldens | 63 | | - | - | - | - |
| - | F.P. | 24.8 | 20 | 19 | †Gold Mn Sardinia | 19 | | - | - | - | - |
| - | F.P. | 5.36 | 11 | 10 | †Gold Sard Wts | 10 | | - | - | - | - |
| 100 | F.P. | 7.74 | 116 | 112 | †Hydro-Dynamic P | 113 | | - | - | - | - |
| - | F.P. | 40.3 | 297 | 285 | †IES Warrants | 265 | +5 | 20.6 | - | 0.3 | - |
| - | F.P. | 5.16 | 280 | 240 | †IES Group | 260 | | - | - | - | - |
| - | F.P. | 14.4 | 118 | 108 | †Independent Engy | 110 | | - | - | - | - |
| - | F.P. | 33.0 | 133 | 123 | Lands Improvement | 127 | -1 | - | - | - | - |
| - | F.P. | 2.51 | 125 | 110 | †Maris Hthcare | 116 | | - | - | - | - |
| - | F.P. | 100.4 | 500 | 435 | PPL Therapeutics | 449 | -4 | - | - | - | - |
| - | F.P. | 24.5 | 99 | 96 | Renaissance US G | 96 | | - | - | - | - |
| 70 | F.P. | 18.5 | 75 | 71 | †SEA Multimedia | 72 | | - | - | - | - |
| 140 | F.P. | 20.3 | 167 | 164 | †Sinclair M'vsn | 164 | | - | - | - | - |
| 225 | F.P. | 29.4 | 269 | 225 | †Staffware | 254 | | - | - | - | - |
| 100 | F.P. | 101.0 | 103½ | 100 | Templeton Emrg C | 101 | | - | - | - | - |
| 118 | F.P. | 19.6 | 138 | 108 | †Theo Fennell | 121 | +1 | - | - | - | - |
| 174 | F.P. | 19.4 | 178 | 173 | Treats Group | 173 | -2 | - | - | - | - |
| 84 | F.P. | 3.84 | 95 | 91 | †Whitecroft | 91 | | - | - | - | - |

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

## FT GOLD MINES INDEX

| | Jun 24 | % chg on day | Jun 21 | Year ago | Gross div yield % | P/E ratio | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (31) | 2067.18 | +1.4 | 2068.28 | 2015.69 | 1.48 | - | 2520.73 | 1722.93 |
| ■ Regional Indices | | | | | | | | |
| Africa (13) | 2756.55 | +0.5 | 2742.91 | 2716.88 | 2.63 | 37.55 | 3553.86 | 2272.74 |
| Australasia (6) | 2478.36 | −0.5 | 2491.99 | 2328.21 | 2.65 | 29.01 | 2927.34 | 2142.76 |
| North America (12) | 1843.49 | +2.2 | 1803.78 | 1773.54 | 0.74 | 65.55 | 2166.39 | 1488.94 |

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## FT - SE Actuaries Share Indices — The UK Series

| | Jun 25 | Day's chge% | Jun 24 | Jun 21 | Jun 20 | Year ago | Div. yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | 3679.5 | −0.8 | 3710.8 | 3722.3 | 3727.5 | 3313.2 | 4.12 | 2.14 | 14.18 | 90.18 | 1506.51 |
| FT-SE Mid 250 | 4384.5 | −1.1 | 4433.3 | 4440.7 | 4449.8 | 3615.9 | 3.40 | 1.74 | 21.18 | 106.01 | 1756.34 |
| FT-SE Mid 250 ex Inv Trusts | 4425.0 | −1.1 | 4478.1 | 4485.1 | 4493.2 | 3624.7 | 3.49 | 1.78 | 20.14 | 111.63 | 1785.76 |
| FT-SE-A 350 | 1861.5 | −0.9 | 1878.4 | 1883.6 | 1886.6 | 1644.3 | 3.86 | 2.06 | 15.31 | 48.49 | 1558.58 |
| FT-SE-A 350 Higher Yield | 1780.8 | −1.0 | 1798.1 | 1805.8 | 1808.9 | 1650.4 | 5.31 | 1.93 | 12.19 | 53.80 | 1246.67 |
| FT-SE-A 350 Lower Yield | 1949.4 | −0.8 | 1965.9 | 1968.6 | 1971.4 | 1639.3 | 2.73 | 2.29 | 18.95 | 37.50 | 1352.50 |
| FT-SE SmallCap | 2217.34 | −0.5 | 2228.69 | 2232.44 | 2235.83 | 1639.09 | 2.83 | 1.78 | 23.98 | 35.44 | 1822.51 |
| FT-SE SmallCap ex Inv Trusts | 2219.43 | −0.5 | 2230.69 | 2234.51 | 2237.06 | 1617.38 | 3.10 | 1.87 | 21.50 | 37.56 | 1836.01 |
| FT-SE-A ALL-SHARE | 1849.55 | −0.9 | 1865.79 | 1870.80 | 1873.67 | 1625.40 | 3.88 | 2.04 | 15.76 | 43.91 | 1572.56 |

■ **FT-SE Actuaries All-Share**

| | Jun 25 | Day's chge% | Jun 24 | Jun 21 | Jun 20 | Year ago | Div. yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 MINERAL EXTRACTION(24) | 3459.71 | −0.3 | 3470.65 | 3473.80 | 3470.31 | 2841.66 | 3.87 | 1.63 | 17.63 | 79.25 | 1490.64 |
| 12 Extractive Industries(6) | 4309.80 | −0.6 | 4337.31 | 4356.22 | 4401.48 | 3814.05 | 3.72 | 2.52 | 13.34 | 109.19 | 1268.24 |
| 15 Oil, Integrated(3) | 3500.63 | −0.3 | 3509.40 | 3511.28 | 3499.18 | 2886.95 | 4.09 | 1.72 | 17.74 | 81.84 | 1546.80 |
| 18 Oil Exploration & Prod(15) | 2489.01 | −0.9 | 2497.66 | 2492.96 | 2495.81 | 2023.26 | 2.11 | 1.58 | 37.34 | 34.94 | 1499.09 |
| 20 GEN INDUSTRIALS(276) | 2021.65 | −1.2 | 2046.94 | 2052.59 | 2059.38 | 1911.72 | 4.25 | 1.90 | 15.50 | 45.01 | 1109.13 |
| 21 Building & Construction(34) | 1200.87 | −0.8 | 1210.07 | 1207.79 | 1212.03 | 949.66 | 3.43 | 1.66 | 21.70 | 20.76 | 1007.28 |
| 22 Building Matls & Merchs(29) | 1861.80 | −1.8 | 1896.23 | 1907.80 | 1913.20 | 1740.51 | 4.10 | 1.74 | 17.49 | 42.61 | 944.80 |
| 23 Chemicals(25) | 2420.44 | −1.1 | 2448.57 | 2454.62 | 2458.50 | 2395.88 | 4.12 | 1.98 | 15.46 | 57.59 | 1153.05 |
| 24 Diversified Industrials(19) | 1550.10 | −2.5 | 1589.97 | 1595.32 | 1603.74 | 1790.02 | 8.72 | 1.70 | 10.97 | 55.38 | 874.57 |
| 25 Electronic & Elect Equip(37) | 2342.47 | −0.7 | 2358.27 | 2363.10 | 2371.43 | 1986.14 | 3.17 | 1.67 | 23.59 | 17.78 | 1210.75 |
| 26 Engineering(71) | [illegible] | | | | | | | | | | |
| 27 Engineering, Vehicles(13) | [illegible] | | | | | | | | | | |
| 28 Paper, Pckg & Printing(26) | [illegible] | | | | | | | | | | |
| 29 Textiles & Apparel(19) | [illegible] | | | | | | | | | | |
| 30 CONSUMER GOODS(91) | [illegible] | | | | | | | | | | |
| 32 Alcoholic Beverages(6) | [illegible] | | | | | | | | | | |
| 33 Food Producers(23) | [illegible] | | | | | | | | | | |
| 34 Household Goods(16) | [illegible] | | | | | | | | | | |
| 36 Health Care(20) | [illegible] | | | | | | | | | | |
| 37 Pharmaceuticals(13) | [illegible] | | | | | | | | | | |
| 38 Tobacco(1) | [illegible] | | | | | | | | | | |
| 40 SERVICES(259) | [illegible] | | | | | | | | | | |
| 41 Distributors(32) | [illegible] | | | | | | | | | | |
| 42 Leisure & Hotels(24) | [illegible] | | | | | | | | | | |
| 43 Media(46) | [illegible] | | | | | | | | | | |
| 44 Retailers, Food(15) | [illegible] | | | | | | | | | | |
| 45 Retailers, General(44) | [illegible] | | | | | | | | | | |
| 47 Breweries, Pubs & Rest.(34) | [illegible] | | | | | | | | | | |
| 48 Support Services(40) | [illegible] | | | | | | | | | | |
| 49 Transport(22) | [illegible] | | | | | | | | | | |
| 60 UTILITIES(33) | [illegible] | | | | | | | | | | |
| 62 Electricity(11) | [illegible] | | | | | | | | | | |
| 64 Gas Distribution(2) | [illegible] | | | | | | | | | | |
| 66 Telecommunications(8) | [illegible] | | | | | | | | | | |
| 68 Water(12) | [illegible] | | | | | | | | | | |
| 69 NON-FINANCIALS(668) | [illegible] | | | | | | | | | | |
| 70 FINANCIALS(105) | [illegible] | | | | | | | | | | |
| 71 Banks, Retail(8) | 3863.17 | −1.2 | 3909.23 | 3920.92 | 3908.68 | 3166.53 | 4.00 | 2.89 | 10.73 | 110.04 | 1272.21 |
| 72 Banks, Merchant(6) | 3646.58 | −0.5 | 3669.42 | 3669.31 | 3611.26 | 3258.92 | 2.71 | 2.80 | 17.75 | 55.36 | 1162.15 |
| 73 Insurance(23) | 1417.18 | −2.2 | 1448.50 | 1453.73 | 1456.88 | 1276.58 | 5.96 | 3.12 | 8.73 | 48.01 | 1074.41 |
| 74 Life Assurance(6) | 3328.50 | +0.1 | 3326.81 | 3340.75 | 3349.91 | 2633.93 | 4.49 | 2.24 | 12.44 | 100.72 | 1395.33 |
| 77 Other Financial(21) | 2650.60 | −0.5 | 2663.97 | 2668.70 | 2667.97 | 2010.24 | 3.93 | 1.73 | 18.39 | 58.60 | 1519.70 |
| 78 Property(41) | 1512.29 | −0.6 | 1521.30 | 1526.26 | 1528.11 | 1447.54 | 4.21 | 1.29 | 22.99 | 35.24 | 938.72 |
| 80 INVESTMENT TRUSTS(126) | 3142.74 | −0.6 | 3161.13 | 3157.51 | 3171.94 | 2784.04 | 2.23 | 1.09 | 51.52 | 39.96 | 1101.40 |
| 89 FT-SE-A ALL-SHARE(900) | 1849.55 | −0.6 | 1865.79 | 1870.80 | 1873.67 | 1625.40 | 3.88 | 2.04 | 15.78 | 43.91 | 1572.56 |
| FT-SE-A Fledgling | 1265.65 | −0.6 | 1272.56 | 1272.32 | 1274.10 | 1002.39 | 2.73 | 2.12 | 21.61 | 16.31 | 1325.50 |
| FT-SE-A Fledgling ex Inv Trusts | 1281.27 | −0.6 | 1289.01 | 1288.59 | 1290.16 | 994.41 | 2.92 | 2.29 | 16.67 | 17.65 | 1342.27 |

■ **Hourly movements**

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | High/day | Low/day |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | 3710.2 | 3698.6 | 3687.6 | 3688.7 | 3686.1 | 3687.1 | 3692.1 | 3691.2 | 3681.2 | 3710.3 | 3679.1 |
| FT-SE Mid 250 | 4425.8 | 4416.0 | 4404.7 | 4402.5 | 4401.8 | 4401.4 | 4400.5 | 4399.1 | 4386.0 | 4425.9 | 4384.5 |
| FT-SE-A 350 | 1877.5 | 1872.2 | 1866.7 | 1866.8 | 1865.7 | 1866.1 | 1869.0 | 1867.5 | 1862.3 | 1877.5 | 1861.4 |

Time of FT-SE 100 Day's high: 8:40 AM Day's low: 3:53 PM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 2954.2 (23/01/96).

■ **FT-SE Actuaries 350 Industry baskets**

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | Close | Previous | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bldg & Cnstrcn | 1190.1 | 1188.5 | 1183.5 | 1183.2 | 1185.0 | 1185.0 | 1184.8 | 1184.6 | 1180.0 | 1179.8 | 1191.5 | −11.7 |
| Pharmaceuticls | 5025.5 | 5017.8 | 4993.3 | 4999.4 | 4990.6 | 4992.3 | 5006.2 | 5006.9 | 4996.0 | 4997.1 | 5022.0 | −24.9 |
| Water | 2140.9 | 2138.4 | 2133.1 | 2130.5 | 2123.9 | 2123.9 | 2122.1 | 2118.9 | 2111.3 | 2111.3 | 2138.4 | −27.1 |
| Banks, Retail | 3965.0 | 3958.4 | 3940.5 | 3935.8 | 3935.1 | 3936.0 | 3939.7 | 3938.6 | 3921.2 | 3912.5 | 3959.1 | −46.6 |

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

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## TRADING VOLUME

■ **Major Stocks Yesterday**

| | Vol. 000s | Closing price | Day's change |
|---|---|---|---|
| 3i† | 285 | 448 | -2 |
| ASDA Group† | 4,300 | 118½ | |
| [illegible] | | | |
| Burton† | 7,300 | 106½ | -2¼ |
| Cable & Wire† | 4,000 | 425 | -3½ |
| Cadbury Schweppes† | 7,900 | 504 | +2 |
| Caradon | 5,400 | 221 | -5 |
| Carlton Comms.† | 3,300 | 508 | -4 |
| Chubb | 1,500 | 319 | -4 |
| Coats Viyella | 2,000 | 169 | -5 |
| Comm. Union† | 1,000 | 568 | -9 |
| Compass | 328 | 593 | -10½ |
| Cookson† | 2,600 | 275 | -7 |
| Courtaulds† | 1,900 | 420 | -5 |
| Dalgety | 1,000 | 388 | -7 |
| De La Rue | 1,100 | 586 | +9 |
| Dixons† | 2,000 | 521 | -10 |
| East Midland Elect. | 47 | 516 | -3 |
| Electrocomps | 938 | 379 | -4 |
| Eng China Clays | 1,700 | 276 | -4 |
| Enterprise Oil† | 694 | 462 | -1 |
| Eurotunnel Units | 283 | 107 | |
| FKI | 2,700 | 176 | -5 |
| Foreign & Col. I.T. | 2,300 | 160½ | |
| Gen. Accident† | 694 | 636 | -14 |
| General Elect.† | 7,100 | 362 | -5 |
| Glaxo Wellcome† | 2,900 | 848 | -5 |
| Glynwed | 2,000 | 317 | -12 |
| Granada† | 3,800 | 864 | -15 |
| Grand Met.† | 7,800 | 419 | +7 |
| GUS† | 3,500 | 647 | -10 |
| Greenalls | 1,100 | 574 | -5 |
| GRE† | 2,300 | 249 | -9 |
| GKN† | 434 | 968 | |
| Guinness† | 4,200 | 440 | -3 |
| HSBC (75p shs)† | 1,200 | 983½ | -2½ |
| Hammerson | 316 | 378 | -6 |
| Hanson† | 14,700 | 174½ | -5 |
| Harrisons Crosfield | 1,200 | 129 | -3½ |
| Hays | 367 | 453 | -1 |
| Hillsdown | 1,300 | 179½ | -2½ |
| Hyder | 175 | 718 | -5 |
| IMI | 287 | [illegible] | -1 |
| ICI† | 3,600 | 792 | -14 |
| Inchcape | 718 | 283 | -12 |
| Johnson Matthey | 151 | 619 | -1 |
| Kingfisher† | 1,600 | 628 | -2 |
| Kwik Save | 58 | 466 | -2 |
| Ladbroke† | 6,500 | 178½ | -5½ |
| Land Securities† | 2,400 | 609 | -5 |
| Laporte | 75 | 677 | -12 |
| Legal & General† | 1,100 | 668 | -5 |
| Lloyds Abbey | 184 | 512 | -10 |
| Lloyds TSB† | 3,100 | 305½ | -9 |
| LASMO† | 4,300 | 175½ | |
| London Elect | 219 | [illegible] | -7 |
| [illegible] | | | |
| Scottish & New.† | 1,300 | 659 | -9½ |
| Scot. Hydro-Elect. | 203 | 299½ | -1½ |
| Scottish Power† | 520 | 311½ | -5½ |
| Sears | 7,100 | 100 | +1 |
| Sedgwick | 430 | 140 | -5 |
| Severn Trent† | 664 | 640 | -10 |
| Shell Transport† | 3,200 | 951 | -1 |
| Siebe† | 478 | 901 | -11 |
| Slough Ests | 343 | 219 | -3 |
| Smith (W.H.) | 470 | 470 | -20 |
| Smith & Nephew† | 3,200 | 209 | -6 |
| SmKl Beecham† | 2,700 | 686 | -1½ |
| Smiths Inds.† | 703 | [illegible] | -8 |
| Southern Elect† | 1,200 | 703 | -5 |
| South West Water | 119 | [illegible] | -3 |
| Southern Water | 1,800 | 1003 | -2 |
| Standard Chartd.† | 2,700 | 634 | -10 |
| Storehouse | 401 | 315 | -5 |
| Sun Alliance† | 1,400 | 367 | -8 |
| T&N | 1,900 | 182 | -3 |
| TI Group† | 905 | 567 | -4 |
| Tarmac | 2,800 | 111 | -5 |
| Tate & Lyle† | 980 | 464 | +1 |
| Taylor Woodrow | 211 | 187 | -8 |
| TeleWest Comms | 5 | 164 | -4½ |
| Tesco† | 6,100 | 298 | -4 |
| Thames Water† | 1,500 | 547 | -10 |
| Thorn EMI† | 1,200 | 1707 | -18 |
| Tomkins† | 11,200 | 238 | -3 |
| Unigate | 105 | 409 | -3 |
| Unilever† | 3,300 | 1288 | +8 |
| United Biscuits | 1,100 | 218 | -3 |
| Utd. News & Media† | 1,200 | 709 | -17 |
| United Utilities† | 498 | 583 | -7 |
| Vodafone† | 8,300 | 231 | -1 |
| WPP | 5,600 | 208½ | -3½ |
| Wessex Water | 1,200 | 359 | -6 |
| Whitbread† | 1,100 | 710 | -5 |
| Williams Hldgs.† | 1,700 | 330 | -3 |
| Willis Corroon | 1,600 | 181 | -3 |
| Wimpey | 3,800 | 164 | +2 |
| Wolseley† | 1,400 | 456 | -3 |
| Yorkshire Elect | 186 | 727 | -5 |
| Yorkshire Water | 597 | 650 | -6 |
| Zeneca† | 1,400 | 1352 | -5 |

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Jun 25 / Sch)

BELGIUM/LUXEMBOURG (Jun 25 / Frs.)

CZECH REP (Jun 25 / Koruna)

DENMARK (Jun 25 / Kr)

FINLAND (Jun 25 / Mks)

FRANCE (Jun 25 / Frs.)

GERMANY (Jun 25 / Dm.)

GREECE (Jun 25 / Drachma)

ITALY (Jun 25 / Lira)

NETHERLANDS (Jun 25 / Fls.)

NORWAY (Jun 25 / Kroner)

POLAND (Jun 25 / Zloty)

PORTUGAL (Jun 25 / Escudo)

SPAIN (Jun 25 / Pts.)

SWEDEN (Jun 25 / Kronor)

SWITZERLAND (Jun 25 / Frs.)

TURKEY (Jun 25 / Tk Lira)

## PACIFIC

JAPAN (Jun 25 / Yen)

AUSTRALIA (Jun 25 / Aus$)

HONG KONG (Jun 25 / H.K.$)

INDONESIA (Jun 25 / Rupiah)

MALAYSIA (Jun 25 / MYR)

NEW ZEALAND (Jun 25 / NZ $)

SINGAPORE (Jun 25 / S$)

SOUTH KOREA (Jun 25 / Won)

TAIWAN (Jun 25 / TW $)

THAILAND (Jun 25 / Baht)

## AFRICA

SOUTH AFRICA (Jun 25 / Rand)

## NORTH AMERICA

CANADA

TORONTO (Jun 25 / Can $) 4 pm close

MONTREAL (Jun 25 / Can $) 4 pm close



## INDICES

| | Jun 25 | Jun 24 | Jun 21 | 1996 High | 1996 Low |
|---|---|---|---|---|---|
| **Argentina** | | | | | |
| General(29/12/77) | (u) | 18478.02 | 18308.39 | 18881.95 20/5 | 15828.61 19/3 |
| **Australia** | | | | | |
| All Ordinaries(1/1/80) | 2254.3 | 2258.7 | 2255.6 | 2326.00 26/4 | 2127.40 11/3 |
| All Mining(1/1/80) | 1035.2 | 1042.6 | 1047.10 | 1118.40 8/5 | 1004.79 16/1 |
| **Austria** | | | | | |
| Credit Aktien(30/12/84) | 377.59 | 378.14 | 375.27 | 394.99 31/5 | 352.78 2/1 |
| Traded Index(2/1/91) | 1089.56 | 1090.21 | 1086.61 | 1142.51 28/5 | 975.27 2/1 |
| **Belgium** | | | | | |
| BEL20(1/1/91) | 1735.07 | 1728.79 | 1717.37 | 1773.26 28/5 | 1674.90 2/1 |
| **Brazil** | | | | | |
| Bovespa(29/12/83) | (u) | 62016.0 | 60531.0 | 62018.00 24/6 | 43901.09 2/1 |
| **Canada** | | | | | |
| Metals Mnls♦(1975) | (u) | 6155.95 | 5160.80 | 5624.60 8/5 | 4587.47 18/1 |
| Composite♦(1975) | (u) | 5074.30 | 5047.54 | 5239.90 22/5 | 4739.70 15/1 |
| Portfolio$$(4/1/83) | (u) | (c) | 2473.73 | 2585.85 27/5 | 2327.39 12/1 |
| **Chile** | | | | | |
| IGPA Gen♥(31/12/80) | (u) | 5502.58 | 5520.73 | 5804.33 9/1 | 5215.28 8/4 |
| **Denmark** | | | | | |
| CopenhagenSE(3/1/83) | 407.28 | 406.84 | 405.98 | 407.28 25/6 | 368.40 2/1 |
| **Finland** | | | | | |
| HEX General(28/12/90) | 2000.35 | 2010.21 | (c) | 2076.42 31/5 | 1861.67 16/1 |
| **France** | | | | | |
| SBF 250(31/12/90) | 1444.13 | 1432.75 | 1422.64 | 1457.58 6/6 | 1260.16 2/1 |
| CAC 40(31/12/87) | 2118.43 | 2097.63 | 2084.18 | 2146.79 30/4 | 1897.85 11/1 |
| **Germany** | | | | | |
| FAZ Aktien(31/12/58) | 909.47 | 905.07 | 897.00 | 909.47 25/6 | 818.56 2/1 |
| Commerzbank(1/12/53) | 2620.30 | 2609.50 | 2587.80 | 2620.30 25/6 | 2370.20 2/1 |
| DAX‡(30/12/87) | 2572.96 | 2565.43 | 2540.11 | 2572.96 25/6 | 2284.86 2/1 |
| **Greece** | | | | | |
| Athens SE(31/12/80) | 898.76 | 891.83 | 890.65 | 1017.95 4/3 | 891.83 24/6 |
| **Hong Kong** | | | | | |
| Hang Seng(31/7/64) | 10982.77 | 10958.72 | 10855.29 | 11594.99 16/2 | 10204.87 2/1 |
| **India** | | | | | |
| BSE Sens.(1979) | 3855.06 | 3928.58 | 3924.95 | 4069.26 18/6 | 2826.08 25/1 |
| **Indonesia** | | | | | |
| Jakarta Comp.(10/8/82) | 584.20 | 578.77 | 572.85 | 638.21 24/4 | 512.49 2/1 |
| **Ireland** | | | | | |
| ISEQ Overall(4/1/88) | 2564.00 | 2594.99 | 2590.00 | 2595.19 18/6 | 2234.61 2/1 |
| **Italy** | | | | | |
| Banca Comm Ital(1972) | 664.52 | 660.61 | 664.75 | 674.10 20/5 | 572.21 29/3 |
| MIB General(2/1/95) | 1128.0 | 1120.0 | 1127.0 | 1142.60 20/5 | 970.80 27/3 |
| **Japan** | | | | | |
| Nikkei 225(16/5/49) | 22597.17 | 22603.20 | 22530.65 | 22603.20 24/6 | 19734.70 13/3 |
| Nikkei 300(1/10/82) | 318.57 | 319.32 | 317.35 | 319.32 24/6 | 284.48 11/3 |
| Topix(4/1/68) | 1715.53 | 1718.91 | 1709.60 | 1718.91 24/6 | 1524.12 13/3 |
| 2nd Section(4/1/68) | 2227.51 | 2220.84 | 2215.02 | 2243.28 2/5 | 1902.78 14/3 |
| **Malaysia** | | | | | |
| KLSE Comp.(4/4/86) | 1148.88 | 1151.05 | 1146.36 | 1199.54 30/4 | 993.18 2/1 |
| **Mexico** | | | | | |
| IPC(Nov 1978) | (u) | 3132.22 | 3136.05 | 3362.88 22/5 | 2736.36 8/3 |
| **Netherland** | | | | | |
| CBS TtRtnGen(End 83) | 639.3 | 637.5 | 636.5 | 652.60 12/6 | 539.50 2/1 |
| CBS All Shr(End 83) | 379.2 | 378.2 | 377.6 | 387.10 12/6 | 328.70 2/1 |
| **New Zealand** | | | | | |
| Cap. 40(1/7/86) | 2098.25 | 2099.47 | 2094.91 | 2203.06 4/1 | 2025.14 7/6 |
| **Norway** | | | | | |
| Oslo SE(Ind)(2/1/83) | 1420.35 | 1462.78 | 1450.83 | 1466.71 12/6 | 1259.08 30/1 |
| **Philippines** | | | | | |
| Manila Comp(2/1/85) | 3216.58 | 3227.16 | 3212.28 | 3286.70 10/6 | 2578.97 2/1 |
| **Portugal** | | | | | |
| BNL 30(4/1/93) | 1949.80 | 1939.31 | 1933.14 | 1949.80 25/6 | 1802.81 2/1 |
| **Singapore** | | | | | |
| SES All-S'pore(2/4/75) | 582.10 | 582.38 | 584.83 | 610.37 5/2 | 555.69 2/1 |
| **South Africa** | | | | | |
| JSE Gold(28/9/78) | 1812.0♥ | 1782.2 | 1786.4 | 2030.40 29/5 | 1348.49 2/1 |
| JSE Ind.(28/9/78) | 8144.2♥ | 8109.7 | 8116.2 | 8739.30 25/1 | 7723.20 20/5 |
| **South Korea** | | | | | |
| KoreaCmpEx**(4/1/80) | 836.94 | 842.48 | 864.27 | 986.84 7/5 | 836.94 25/6 |
| **Spain** | | | | | |
| Madrid SE(30/12/85) | 374.07 | 373.84 | 372.08 | 374.07 25/6 | 323.75 11/1 |
| **Sweden** | | | | | |
| AffarsvarldnGen(1/2/37) | 1980.5 | 1982.9 | (c) | 2019.00 6/6 | 1708.50 23/1 |
| **Switzerland** | | | | | |
| Swiss Bk Ind(31/12/58) | 1774.32 | 1781.63 | 1773.37 | 1781.63 24/6 | 1616.19 17/1 |
| SBC General(1/4/87) | 1255.08 | 1256.94 | 1252.21 | 1259.86 26/4 | 1114.47 26/1 |
| **Taiwan** | | | | | |
| WeightedPr.**(30/6/66) | 6384.07 | 6431.25 | 6355.66 | 6431.25 24/6 | 4899.22 6/2 |
| **Thailand** | | | | | |
| Bangkok SET(30/4/75) | 1225.57 | 1223.40 | 1235.37 | 1415.04 8/2 | 1223.40 24/6 |
| **Turkey** | | | | | |
| Istanbul Cmp.(Jan 1986) | 67656.8 | 68598.1 | 68751.3 | 72066.80 8/4 | 38779.30 2/1 |
| **WORLD** | | | | | |
| MS Capital Int$(1/1/70) | 779.0* | 779.7 | 777.1 | 780.30 22/5 | 725.90 15/1 |
| **CROSS-BORDER** | | | | | |
| Eurotrack 100(26/10/90) | 1695.42 | 1690.97 | 1685.0 | 1699.17 29/5 | 1504.40 11/1 |
| Euro Top-100(26/6/90) | 1437.44 | 1437.48 | 1433.26 | 1458.28 28/4 | 1333.01 11/1 |
| HSBC JC Drgn(31/12/88) | (u) | 377.57 | 375.93 | 383.10 16/4 | 344.19 2/1 |
| ING Brngs Emrg(7/1/92) | (u) | 162.57 | 181.86 | 164.14 14/5 | 147.26 2/1 |

## US INDICES

| Dow Jones | Jun 24 | Jun 21 | Jun 20 | 1996 High | 1996 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 5717.70 | 5705.23 | 5659.43 | 5778.00 (22/5) | 5032.94 (10/1) | 5778.00 (22/5/96) | 41.22 (8/7/32) |
| Home Bonds | 101.06 | 101.26 | 101.26 | 106.09 (14/2) | 101.06 (24/6) | 108.77 (18/10/93) | 54.99 (1/10/81) |
| Transport | 2206.89 | 2206.31 | 2196.32 | 2296.20 (22/5) | 1882.71 (18/1) | 2296.20 (22/5/96) | 12.32 (8/7/32) |
| Utilities | 211.71 | 210.52 | 209.12 | 234.60 (12/2) | 205.42 (7/5) | 256.46 (31/8/93) | 10.50 (8/4/32) |

DJ Ind. Day's high 5770.61 (5722.36) Low 5668.61 (5638.11) (Theoretical♦)
Day's high 5742.54 (5705.23) Low 5704.49 (5661.26) (Actual♦)

| Standard and Poors | Jun 24 | Jun 21 | Jun 20 | 1996 High | 1996 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 668.85 | 666.84 | 662.10 | 678.51 (24/5) | 598.48 (10/1) | 678.51 (24/5/96) | 4.40 (1/6/32) |
| Industrials♥ | 798.03 | 796.09 | 789.90 | 807.88 (5/6) | 702.07 (15/1) | 807.88 (5/6/96) | 3.62 (21/6/32) |
| Financial | 66.38 | 65.89 | 65.77 | 69.68 (5/3) | 58.67 (18/1) | 69.58 (5/3/96) | 8.64 (1/10/74) |
| NYSE Comp. | 358.01 | 357.02 | 354.96 | 363.74 (24/5) | 321.41 (10/1) | 363.74 (24/5/96) | 4.46 (25/4/42) |
| Amex Mkt Val | 585.14 | 584.96 | 585.24 | 614.89 (22/5) | 529.05 (18/1) | 614.89 (22/5/96) | 29.31 (9/12/72) |
| NASDAQ Cmp | 1182.91 | 1175.34 | 1167.34 | 1249.14 (5/6) | 988.57 (15/1) | 1249.14 (5/6/96) | 54.87 (31/10/72) |

### ■ RATIOS

| | Jun 21 | Jun 14 | Jun 7 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.17 | 2.19 | 2.16 | 2.42 |
| | Jun 19 | Jun 12 | Jun 5 | Year ago |
| S & P Ind. Div. yield | 1.87 | 1.87 | 1.83 | 2.20 |
| S & P Ind. P/E ratio | 19.65 | 22.74 | [illegible] | 17.65 |

### ■ NEW YORK ACTIVE STOCKS

### ■ TRADING ACTIVITY

## INDEX FUTURES

| | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| **■ CAC-40 (200 x Index)** | | | | | | | |
| Jun | 2094.0 | 2114.5 | +24.5 | 2120.0 | 2094.0 | 31,480 | 30,209 |
| Jul | 2093.5 | 2113.0 | +24.5 | 2119.0 | 2093.5 | 6,382 | 24,183 |
| **■ DAX** | | | | | | | |
| Sep | 2592.0 | 2598.5 | +14.5 | 2605.0 | 2586.0 | 14,078 | |
| Dec | 2621.0 | 2618.0 | +14.5 | 2621.0 | 2618.0 | 5 | |
| **■ OMX** | | | | | | | |
| Jun | 1549.50 | 1538.00 | −12.0 | 1550.00 | 1537.50 | 6,321 | 99,434 |
| Jul | 1556.05 | 1545.00 | −14.7 | 1579.70 | 1544.75 | 3,862 | 10,304 |
| **■ SOFFEX** | | | | | | | |
| Jun | 3700.5 | 3708.0 | +7.50 | 3710.0 | 3683.0 | 4,094 | 29,671 |
| Jul | 3710.0 | 3714.5 | −3.00 | 3710.0 | 3710.0 | 1 | 90 |
| **■ S&P 500** | | | | | | | |
| Sep | 675.00 | 676.70 | +1.55 | 676.85 | 674.70 | 52,710 | 198,058 |
| Dec | | 681.20 | | 680.15 | | 333 | 8,201 |
| **■ Nikkei 225** | | | | | | | |
| Jun | 22700.0 | 22540.0 | −60.0 | 22740.0 | 22520.0 | 23,226 | 218,104 |
| Sep | 22650.0 | 22690.0 | +100.0 | 22690.0 | 22690.0 | 11 | 4,114 |

Open interest figures for previous day.

### ■ TOKYO - MOST ACTIVE STOCKS: Tuesday, June 25, 1996

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Nagasakiya | 9.0m | 991 | +84 |
| Hokkaido Taku Bk | 8.8m | 352 | −7 |
| Nippon Steel | 7.8m | 376 | −2 |
| Mitsubishi Hvy | 7.6m | 946 | −8 |
| Isuzu Motors | 6.0m | 850 | |
| Kanematsu Corp | 5.7m | 800 | +20 |
| Toyota Motor | 5.6m | 2,750 | −30 |
| Sumitomo Corp | 5.5m | 980 | +30 |
| Honda Motor | 5.5m | 2,860 | +20 |
| Ishihara Sangyo | 5.2m | 442 | +10 |

FT FREE ANNUAL REPORTS SERVICE

4 pm close June 25

# NEW YORK STOCK EXCHANGE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -



Continued on next page

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## NYSE PRICES

4 pm close June 25

Continued from previous page

[illegible]

## NASDAQ NATIONAL MARKET

4 pm close June 25

[illegible]

## AMEX PRICES

4 pm close June 25

[illegible]

AMERICA

# Worries over economy hit Dow index

### Wall Street

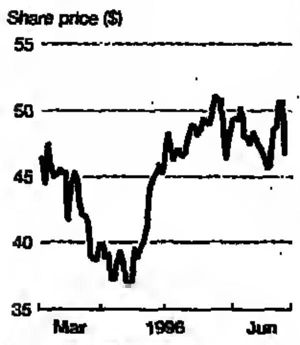
Worries about the strength of the US economy sent share prices lower in early trading in spite of modest gains on the bond market, *writes Lisa Bransten in New York.*

At 1 pm. the Dow Jones Industrial Average was off 12.19 at 5,705.60. The Standard & Poor's 500 slipped 0.89 to 667.96, while the American Stock Exchange composite eased 1.37 to 593.77. Volume on the New York Stock Exchange was 223m shares.

US Treasury prices advanced after the Conference Board noted a drop in its index of consumer confidence index for June. Near midday, the benchmark 30-year Treasury was up ¼ to yield 7.056 per cent.

Cyclical shares, which would

**3Com**



Source: FT Extel

be most affected by economic slowing, underperformed other sectors yesterday with the Morgan Stanley index of cyclical shares off 0.7 per cent, while the counterpart index of consumer shares edged up 0.1 per cent.

Shares in the Big Three automakers were especially weak after an analyst at Bear Stearns, the New York investment bank, initiated coverage of them with an unattractive rating. Chrysler fell $2⅛ at $64⅛, General Motors, which is a component of the Dow, receded $1 to $53⅞ and Ford was $⅝ weaker at $32⅝.

Other declining cyclical shares in the Dow included International Paper, off $1⅞ at $38⅝, Du Pont, $1 weaker at $78⅝ and Caterpillar, which shed $1 at $68⅝.

Meanwhile consumer companies, which were seen as defensive shares during economic slowing, posted gains. Procter & Gamble added $1¼ at $92⅝. Merck was $⅝ stronger at $64⅞ and McDonalds climbed $⅝ at $47⅞.

Technology shares were also lower, after rebounding in the previous session from the sharp weakness seen for most of this month. In early trading the Nasdaq composite, which is about 40 per cent technology shares, was off 4.94 at 1,177.96 and the Pacific Stock Exchange technology index was 0.7 per cent weaker.

That weakness came even although 3Com, the computer networking company, reported earnings in line with analysts' expectations. Shares in the company slid $4⅝ or 9 per cent at $46⅝ amid disappointment that the company did not beat expectations.

Elsewhere, Franklin Resources added $1⅛ at $59¾ after the mutual fund company announced it had agreed to buy Heine Securities, a specialist in US equities, for $550m in cash.

### Canada

Toronto moved from morning strength to midsession weakness, the TSE 300 composite index falling 8.41 to 5,065.90 by 1pm local time, with the most obvious weakness in base metals, the metals and minerals index losing 40.2 at 5,115.7.

Volume rose from 32.9m shares to 42.7m. The proposed stock buyback at Imperial Oil left the shares C$1.50 higher at C$57.60; and while strength in the bullion price lifted gold shares generally, TVX Gold rose 25 cents to C$11.10 after Morgan Stanley raised its rating on the stock from market perform to buy.

# Mexico extends rally

Latin American stocks made a mixed start to the day, with Mexico turning in one of the better lunchtime performances.

**MEXICO CITY** showed clear signs of wanting to build on Monday's late rally, with sentiment aided by hopes for a neutral result from the latest weekly *Cetes* (Treasury bill) auction by the Bank of Mexico. The IPC index was up 25.46 at 4,370.44 at midday.

**BUENOS AIRES** also edged higher, with the Merval index adding 2.230 to 613.630 during the morning session following news that the government was to push ahead with plans to reduce the public sector.

**SAO PAULO** was running 884.30 down at 61,134 at the end of a dull morning in spite of aggressive foreign buying in the telecoms sector, where a combination of restructuring and privatisation moves were said to be creating investor interest. **SANTIAGO** eased as shares maintained their negative bias in the face of selling by GT Chile, the foreign capital fund. The IPSA index was off 0.63 at 99.82.

# South Africa broadly higher

Equities on the Johannesburg market closed firm after a day of quiet trading. Industrial stocks recovered from Monday's weakness and gold issues continued to move higher on the back of gains for the bullion price.

The all-share index finished 32.7 stronger at 6,891.8. Dealers said positive gold prices and a prime rate cut by one of the major banks were the main supports to the better sentiment. The industrials index improved 34.5 to 8,144.2 and the gold shares index ended with an advance of 19.8 at 1,812.0.

Absa Bank reduced its prime lending rate by 1 percentage point. "If the other three big banks follow suit the stock market could become much more interesting," commented a dealer.

Among individual stocks, Liberty Life put on 20 cents at R137.25 and Kloof Gold firmed 15 cents to R45.75.

EUROPE

# Allianz into overdrive, Dax scales all-time peak

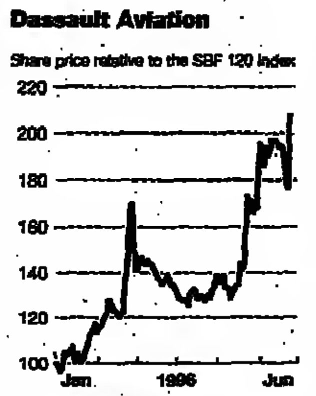
Europe's biggest insurer, Allianz, went into overdrive and **FRANKFURT**'s Dax index followed, hitting an all-time high with help from a strengthening dollar and firm bonds. The key index closed 16.13 ahead at an Ibis-indicated 2,578.36, with turnover rising from DM8.4bn to DM8.8bn.

Allianz climbed DM89, or 3.5 per cent, to DM2,630, lifted by a 52 per cent jump in 1995 net profits and a dividend rise from DM15 to DM16 a share. The DVFA earnings rose from DM56.60 a share to DM87.20, whereas most analysts were looking for about DM75. The share price action, said traders, reflected a wave of short covering; Allianz had fallen by 11 per cent this year against a Dax gain of 13 per cent.

The big three chemicals stocks were good to middling, with BASF rising DM7.25 to DM435.20 but Hoechst by just 18 pfgs to DM53.47. Merck and Schering had a less comfortable time, losing DM1.32 at DM58.13 and 50 pfgs at DM111.85 respectively.

Mr Paul Murphy of the pharmaceuticals team at Goldman Sachs said that after Nycomed, in Norway, issued a profits warning based on problems in its imaging division, traders had cast around for other companies in that area.

**Dassault Aviation**



Source: FT Extel

**PARIS** combined broadly based rises in blue chips, boosted by a stronger domestic bond market, with stronger gains for speculative issues as the CAC-40 closed 20.8 higher at 2,118.43, in heavy turnover of FFr7.5bn.

Dassault Aviation was suspended initially due to an order imbalance. It finished FFr118, or 18.4 per cent, higher at FFr760 after Monday's reports that Dassault and the state-controlled aerospace group Aerospatiale had agreed merger terms.

Chargeurs International, the textiles, surfacing and transportation offshoot of the former Chargeurs SA, rose FFr39.30, or 14 per cent, to FFr238. Crédit Lyonnais certificates put on FFr15.50, or 13.6 per cent, at FFr129.40 after the ailing state-owned bank told unions that it wanted to eliminate 5,000 out of 35,000 jobs by the end of 1998.

Back among the blue chips, Alcatel Alsthom rose FFr11.30, or 2.6 per cent, to FFr452.90 after it agreed to sell its 75 per cent stake in the Swiss cable television company SECE Cortaillod to the Swiss company Cablecom for more than FFr2bn. And Canal Plus hit a new 1996 high of FFr1,339 before closing FFr16 up at FFr1,318 on reports that Germany's Bertelsmann was backing down in a dispute with the company by shelving plans for a pay-TV service in France.

**MADRID** came off the top, but still managed to register another all-time high as ABN Amro Hoare Govett moved from underweight to overweight on the market. Mr Simon Jeffries said that markets were placing an Emu bet on Spain and Italy; that Spain now had political stability, falling inflation and interest rates and a reduction in its budget deficit in prospect.

The general index rose just 0.23 to 374.07 but, said Mr Jeffries, it had the prospect of rising a little more over the next three months, while some of its neighbours might fall.

**MILAN** shares resisted the temptation to follow up on Monday's sharp falls and ended the day slightly higher in low volume. The Comit index recovered 1.04 to 158.48.

Trading was characterised by low volumes. "The market is lacking domestic impulses and taking its lead from other markets", said one trader. He added that some foreign brokers believed they were overweight in Italian shares.

ENI rose L120 to L7,515. Stet added L10 to L5,285. Strong foreign demand helped the telecoms group, Tim, rise L85 to L3,320.

**AMSTERDAM** closed higher in cautious trading. The AEX index improved 2.04 to 556.53. The brewer, Heineken, lost Fl 4 to Fl 384.50 and, among the media groups, Wolters Kluwer lost Fl 2 to FL 192.50 and Elsevier Fl 0.60 at FL 25.90.

Philips recovered modestly, adding Fl 0.20 to Fl 54.40 in spite of a forecast from the company of lower semiconductor profits this year.

"From what I've heard from today's presentation, volume growth for chips sales remains fairly good, but profit margins are under pressure," one dealer said.

Among financials, Aegon gained Fl 2.10 to Fl 78.70 to check a recent weak run. ABN Amro added Fl 0.80 at Fl 69.30.

**ZURICH** moved lower in dull trading volume, partly reversing a run of ten consecutive rising sessions. The SMI index closed off 3.6 at 3,697.

Drugs stocks, which had provided most of the upside impetus of late, moved lower as investors showed signs of pausing for breath. Sandoz fell SFr17 to SFr1,429 and Ciba came off SFr21 to SFr1,519.

The shares remain a core recommendation at UBS, however. Mrs Birgit Kulhoff, pharmaceuticals analyst at UBS, has a target price of SFr1,600 at Sandoz, which is shortly to formalise its merger with Ciba.

Financials were strong, Swiss Re rising SFr31 to SFr1,253 following strong results from German rival Allianz. Banks stayed in positive mood after Monday's move by UBS from hold to buy on CS Holding, where the registered shares rose SFr1.25 to SFr116.25.

**OSLO** suffered as Nycomed issued a profits warning, the pharmaceuticals group talking about stiffer than expected competition for diagnostic imaging reagents in the US.

Nycomed B dropped NKr27, or 22.5 per cent, to NKr93; weakness in blue chips saw Norsk Hydro off NKr7.50 at NKr319; and the total index closed 17.29, or just over 2 per cent, lower at 831.69.

**WARSAW** rose for the third session running and set its second straight 26-month high, the Wig index putting on 187.1, or 1.4 per cent, to 13,670.7 with turnover up by a quarter at 153.6m zlotys. But analysts were wary, saying that subsequent activity had signalled a fall on profit-taking today.

Written and edited by William Cochrane and Jeffrey Brown

**FT-SE Actuaries Share Indices** — THE EUROPEAN SERIES

| Jun 25 Hourly changes | Open | 10.30 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | Close |
|---|---|---|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1692.35 | 1692.48 | 1692.47 | 1693.18 | 1694.45 | 1695.04 | 1695.20 | 1695.42 |
| FT-SE Eurotrack 200 | 1718.11 | 1718.05 | 1718.82 | 1719.11 | 1721.32 | 1722.49 | 1721.52 | 1721.65 |

| | Jun 24 | Jun 21 | Jun 20 | Jun 19 | Jun 18 |
|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1690.97 | 1685.00 | 1684.92 | 1686.41 | 1685.57 |
| FT-SE Eurotrack 200 | 1722.72 | 1718.84 | 1720.03 | 1726.18 | 1725.81 |

Base value 1000 (26/10/90) Highday: 100 - 1695.82; 200 - 1723.87 Lowday: 100 - 1691.82 200 - 1717.66. † Partial

ASIA PACIFIC

# Sentiment stays bullish as Nikkei ends slightly lower

### Tokyo

The Nikkei average finished lower for the first time in six trading days. However, the fall was marginal and sentiment remained bullish, *writes Emiko Terazono in Tokyo.*

The 225 index slipped 6.03 to 22,597.17 after moving between 22,516.88 and 22,659.16. Traders refrained from activity as yesterday was the last trading day for June settlements.

Volume totalled 476m shares, against 453m. The Topix index of all first section stocks shed 3.38 to 1,715.53 and the Nikkei 300 eased 0.75 to 318.57. Losers led gainers by 571 to 469, with 182 issues unchanged.

In London the ISE/Nikkei 50 index lost 0.74 at 1,526.81.

While profit-taking affected some shares, buyers still came in for some cyclicals. In carmakers, Honda Motor rose Y20 to Y2,960 after breaching Y3,000 briefly for the first time, and Suzuki Motor rose Y10 to Y1,490; but Toyota Motor declined Y30 to Y2,750 and Mazda Motor Y4 to Y546.

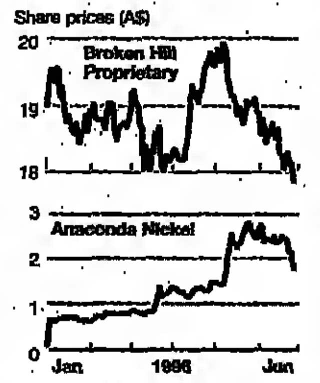
Sumitomo Corporation, the trading company, remained weak on fears that it could post larger losses than the mooted $1.8bn as a result of unauthorised copper trading. The stock fell Y20 to Y980, down 19 per cent in the period since the loss announcement was made.

The stock had seemed to have stabilised at around Y1,000 earlier this week, but industry analysts said it had yet to discount the worst scenario; losses were estimated to be around $4bn by some traders, although the company has denied this.

"Since Sumitomo has Y1bn shares, a loss of $1.8bn would mean a loss of about Y200 per share. But the stock could fall further if the uncertainty continues," said Mr Kota Nakako, an analyst at SBC Warburg.

Profit-taking hit large-capital steels and shipbuilders. Nippon Steel slipped Y2 to Y376 and Mitsubishi Heavy Industries retreated Y9 to Y946.

Speculative favourites were



Source: FT Extel

mixed. Nagasakiya, the supermarket chain, was the most active issue of the day, leaping Y64 to Y991, and Kanematsu, the medium sized trading company, added Y20 at Y800. Hokkaido Takushoku Bank, however, shed Y7 to Y352.

Yakult Honsha, a foods maker, moved ahead Y20 to Y1,560 on reports that it had gained approval for its anti-cancer drug in the US. Daiichi Pharmaceutical, which co-developed the drug, was unchanged at Y1,720.

In Osaka, the OSE average receded 28.25 to 23,713.89 in volume of 51m shares.

### Roundup

Reports of an official clampdown on investment by mainland Chinese investors hit **SHENZHEN**'s hard currency B shares, weak lately on fears that a move by the regulators was imminent.

The B share index tumbled 5.97, or 7 per cent, to 78.04, for a cumulative drop of around a third over the past six trading days. After hours, the clampdown was confirmed.

Turnover contracted from HK$54.5m to HK$48.8m; China Bicycle was the worst hit individual stock, weakening HK$0.30 to HK$1.54.

**SHANGHAI** also closed lower, with A shares down on new listing worries and hard currency B shares off sharply in sympathy with the setback on the Shenzhen market. The hard currency B share index shed 0.63 to 51.41.

**SYDNEY** ended lower as price weakness in base metals, notably copper in the wake of the Sumitomo losses, continued to worry the resources sector. The All Ordinaries index dipped 4.4 to 2,254.3.

BHP fell A$0.21 to A$17.91 ahead of Friday's results. Anaconda, the nickel hopeful, slid a further 37 cents to A$1.87 for a fall of nearly 36 per cent from its May 23 high of A$2.90 on worries which included the development cost of its A$900m Murrin Murrin project.

**SEOUL** dropped to a 30-month low as fears of an economic downturn, and a heavy overhang of margin loans, kept investors away from the market. A planned upward revision in the South Korean current account deficit forecast was a further dampener on sentiment. The composite index fell 5.54 to 836.94, in thin volume of 17.7m shares.

Among finance houses, Daihan Investment lost Won1,000 at Won6,900, and Yeungnam Merchant Bank fell Won900 to Won16,000 after a year's high of Won17,700. Professionals said that repayment of margin loans at brokerage houses would make it difficult for the market to shrug off its insecurities.

**TAIPEI** ran into a correction, the weighted index losing 47.18 at 6,384.07 after an early-session high of 6,468.55. Turnover fell from T$54.2bn to T$44.6bn.

Construction shares, which had been rising on hopes that auction prices of four pieces of state land might help the stagnant real estate market rebound, weakened as the government conducted the auction; Hong Chung retreated 70 cents to T$16.90.

**JAKARTA** saw foreign-led buying of large-capitalisation stocks, and the JKSE composite index rose 5.43 to 584.21. Telkom gained Rp75 at Rp3,400 with some 2m shares traded, following a recently weak performance both at home, and on the New York Stock Exchange.

**BOMBAY** ended lower as large investors began to peer ahead nervously to the Indian budget, likely to be presented on July 19.

"There is always some amount of weakness ahead of the budget. Investors want to see how all the rhetoric will be translated into action," said a trader.

The BSE 30-share index closed 73.52 down at 3,855.06. Tata Chemicals slid Rs14.75 to Rs261.75, a decline of more than 5 per cent.

Dresdner Bank published a positive note on Indian equities. "The fundamentals suggest that the stock markets will perform well, although much will depend on economic policy and the stability of the new government," the bank commented.

**KARACHI** shares closed higher as new account buying by local institutions pushed blue chip stocks ahead.

The 100-share index climbed 27.91 to 1,712.19. Hub Power appreciated Rs1.0 to Rs34.60.



## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | MONDAY JUNE 24 1996 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | FRIDAY JUNE 21 1996 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (79) | 204.30 | 0.2 | 196.70 | 140.90 | 162.65 | 171.93 | 0.3 | 4.26 | 203.85 | 196.23 | 140.44 | 162.03 | 171.44 | 212.18 | 183.30 | 187.85 |
| Austria (25) | 185.86 | -0.2 | 178.94 | 128.16 | 147.96 | 147.92 | 0.0 | 1.92 | 186.20 | 179.24 | 128.48 | 148.00 | 147.94 | 199.28 | 181.11 | 199.28 |
| Belgium (27) | 207.48 | -0.2 | 199.76 | 143.09 | 165.18 | 153.09 | 0.0 | 4.13 | 207.18 | 199.44 | 142.73 | 164.89 | 153.09 | 215.61 | 188.09 | 195.51 |
| Brazil (28) | 181.60 | 1.9 | 175.03 | 125.28 | 144.75 | 335.67 | 2.0 | 1.97 | 178.37 | 171.70 | 122.88 | 141.78 | 329.21 | 181.60 | 123.87 | 130.88 |
| Canada (99) | 160.94 | 0.6 | 154.96 | 110.99 | 128.14 | 158.93 | 0.5 | 2.39 | 159.91 | 153.94 | 110.17 | 127.11 | 158.16 | 165.12 | 134.14 | 143.82 |
| Denmark (33) | 299.79 | -0.2 | 288.63 | 206.75 | 238.69 | 240.40 | -0.1 | 1.88 | 300.55 | 289.32 | 207.05 | 238.89 | 240.81 | 305.17 | 276.05 | 276.12 |
| Finland (23) | 192.07 | -0.3 | 184.92 | 132.47 | 152.93 | 187.20 | -0.4 | 2.67 | 192.76 | 185.55 | 132.79 | 153.21 | 188.00 | 276.11 | 171.73 | 229.43 |
| France (97) | 183.85 | 0.5 | 186.62 | 133.68 | 154.34 | 157.75 | 0.7 | 3.04 | 182.75 | 185.55 | 132.79 | 153.21 | 156.89 | 199.39 | 167.70 | 183.69 |
| Germany (59) | 171.08 | 0.9 | 164.67 | 117.96 | 136.18 | 136.18 | 0.9 | 1.82 | 169.44 | 163.11 | 116.73 | 134.68 | 134.68 | 174.38 | 155.68 | 161.10 |
| Hong Kong (56) | 428.56 | 0.6 | 412.62 | 295.57 | 341.22 | 425.63 | 0.6 | 3.35 | 425.00 | 409.12 | 292.80 | 337.81 | 422.38 | 451.19 | 348.81 | 359.99 |
| Ireland (16) | 288.06 | -0.1 | 278.13 | 199.23 | 230.01 | 257.09 | -0.1 | 3.34 | 289.33 | 278.52 | 199.33 | 229.97 | 257.24 | 290.62 | 233.90 | 237.72 |
| Italy (59) | 81.99 | -1.2 | 78.94 | 56.54 | 65.26 | 94.34 | -1.1 | 2.24 | 82.97 | 79.87 | 57.16 | 65.95 | 95.37 | 84.63 | 67.22 | 78.69 |
| Japan (481) | 158.26 | 0.5 | 152.36 | 109.14 | 126.00 | 109.14 | 0.6 | 0.70 | 157.50 | 151.61 | 108.51 | 125.19 | 108.51 | 164.88 | 137.75 | 147.82 |
| Malaysia (107) | 564.76 | 0.1 | 543.75 | 389.50 | 449.67 | 543.45 | 0.2 | 1.65 | 564.02 | 542.94 | 388.57 | 448.31 | 542.29 | 585.09 | 425.77 | 549.26 |
| Mexico (18) | 1195.04 | -0.6 | 1150.57 | 824.18 | 951.50 | 9978.50 | 0.3 | 1.33 | 1201.86 | 1156.97 | 828.02 | 955.32 | 9962.12 | 1325.66 | 791.99 | 957.31 |
| Netherland (19) | 293.08 | 0.0 | 282.16 | 202.13 | 233.36 | 229.62 | 0.2 | 3.14 | 293.18 | 282.22 | 201.98 | 233.03 | 229.25 | 298.89 | 245.79 | 251.12 |
| New Zealand (15) | 79.47 | -0.1 | 76.52 | 54.81 | 63.28 | 62.32 | 0.2 | 4.35 | 79.52 | 76.55 | 54.78 | 63.21 | 62.21 | 83.49 | 73.94 | [illegible] |
| Norway (35) | 254.66 | 0.8 | 245.39 | 175.78 | 202.94 | 226.45 | 0.7 | 2.01 | 253.43 | 243.93 | 174.57 | 201.41 | 224.84 | 256.94 | 222.24 | 232.59 |
| Singapore (44) | 421.00 | -0.6 | 405.33 | 290.35 | 335.20 | 273.51 | -0.6 | 1.39 | 423.35 | 407.54 | 291.67 | 336.50 | 275.02 | 469.21 | 355.81 | 381.73 |
| South Africa (43) | 361.43 | 0.2 | 347.96 | 249.27 | 287.77 | 344.04 | 0.0 | 2.10 | 360.79 | 347.31 | 248.56 | 286.77 | 344.17 | 437.76 | 339.37 | 348.66 |
| Spain (37) | 182.94 | 0.1 | 176.13 | 126.18 | 145.65 | 179.50 | 0.5 | 3.17 | 182.43 | 175.62 | 125.68 | 145.01 | 177.84 | 182.99 | 145.15 | 149.25 |
| Sweden (48) | 358.18 | 0.1 | 344.85 | 247.03 | 285.19 | 352.90 | 0.2 | 2.41 | 357.77 | 344.40 | 246.48 | 284.37 | 351.90 | 380.77 | 266.48 | 289.84 |
| Switzerland (38) | 239.65 | 0.2 | 230.73 | 165.29 | 190.81 | 187.72 | 0.2 | 1.58 | 239.08 | 230.14 | 164.71 | 190.03 | 186.86 | 252.34 | 191.24 | 203.14 |
| Thailand (46) | 163.44 | -1.5 | 157.36 | 112.72 | 130.13 | 160.57 | -1.4 | 2.06 | 165.89 | 159.69 | 114.29 | 131.86 | 163.21 | 183.66 | 154.74 | 171.42 |
| United Kingdom (200) | 231.73 | -0.3 | 223.11 | 159.82 | 184.51 | 223.11 | -0.3 | 4.21 | 232.40 | 223.72 | 160.11 | 184.73 | 223.72 | 237.43 | 210.29 | 219.38 |
| USA (637) | 272.07 | 0.3 | 261.95 | 187.64 | 216.63 | 272.07 | 0.3 | 2.18 | 271.37 | 261.23 | 186.96 | 215.70 | 271.37 | 278.47 | 221.66 | 224.87 |
| Americas (772) | 248.54 | 0.3 | 239.29 | 171.41 | 197.88 | 208.95 | 0.3 | 2.18 | 247.64 | 238.38 | 170.74 | 196.99 | 208.39 | 252.43 | 203.00 | 205.84 |
| Europe (714) | 209.57 | 0.1 | 201.77 | 144.53 | 166.86 | 184.43 | 0.2 | 3.07 | 209.41 | 201.58 | 144.27 | 166.45 | 184.09 | 211.56 | 187.21 | 191.87 |
| Nordic (136) | 305.46 | 0.1 | 294.10 | 210.67 | 243.21 | 265.16 | 0.1 | 2.32 | 305.30 | 293.90 | 210.33 | 242.67 | 264.79 | 308.81 | 260.78 | 282.14 |
| Pacific Basin (831) | 170.85 | 0.4 | 164.49 | 117.83 | 136.03 | 120.03 | 0.5 | 1.15 | 170.10 | 163.74 | 117.19 | 135.20 | 119.39 | 177.01 | 149.86 | 157.87 |
| Euro-Pacific (1545) | 186.87 | 0.3 | 179.92 | 128.88 | 148.79 | 144.48 | 0.4 | 2.05 | 186.36 | 179.40 | 128.39 | 148.13 | 143.95 | 189.57 | 168.51 | 171.64 |
| North America (726) | 265.20 | 0.3 | 255.33 | 182.90 | 211.15 | 264.50 | 0.3 | 2.18 | 264.48 | 254.60 | 182.21 | 210.22 | 263.79 | 269.52 | 215.78 | 219.65 |
| Europe Ex. UK (514) | 192.18 | 0.3 | 185.01 | 132.53 | 153.00 | 160.66 | 0.4 | 2.47 | 191.63 | 184.47 | 132.02 | 152.32 | 159.98 | 193.57 | 169.65 | 172.71 |
| Pacific Ex. Japan (350) | 288.88 | 0.2 | 278.13 | 199.23 | 230.01 | 249.47 | 0.2 | 3.06 | 288.05 | 277.29 | 198.45 | 228.96 | 248.86 | 298.63 | 243.50 | 254.21 |
| World Ex. US (1735) | 188.08 | 0.3 | 181.06 | 129.71 | 149.73 | 148.92 | 0.4 | 2.05 | 187.54 | 180.54 | 129.21 | 149.07 | 148.38 | 191.56 | 167.36 | 172.63 |
| World Ex. UK (2182) | 212.17 | 0.3 | 204.27 | 146.32 | 168.93 | 180.26 | 0.4 | 1.90 | 211.47 | 203.57 | 145.69 | 168.09 | 179.57 | 213.05 | 181.85 | 185.45 |
| World Ex. Japan (1881) | 244.97 | 0.2 | 235.86 | 168.95 | 195.05 | 232.38 | 0.2 | 2.53 | 244.45 | 235.32 | 168.41 | 194.30 | 231.81 | 247.55 | 208.46 | 211.52 |
| The World Index (2362) | 213.97 | 0.3 | 206.01 | 147.57 | 170.37 | 184.37 | 0.3 | 2.11 | 213.39 | 205.41 | 147.01 | 169.61 | 183.77 | 214.70 | 184.49 | 188.41 |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# POWER GENERATION EQUIPMENT

## Intense competition squeezes margins

**Companies which have already cut costs repeatedly are redoubling their efforts to find savings. But the manufacturers are under pressure to pass the benefits on to their customers, putting further pressure on prices. Stefan Wagstyl reports**

There seems little end in sight to the long war of attrition in the power engineering industry.

Even though demand for new plant has never been greater, intense competition among leading suppliers is depressing prices and squeezing profit margins. Despite some cuts in capacity, the industry is still paying the price for its over-expansion in the late 1980s and early 1990s.

As Mr Adolf Hüttl, president of KWU, the power business of Germany's Siemens, says: "The whole power engineering industry is hoping that the erosion of prices will slow. But it is only a hope."

Companies which have already cut costs repeatedly are redoubling their efforts to find savings. In the biggest step so far, Westinghouse of the US earlier this year closed its factory at Pensacola with the loss of 650 jobs and transferred production, mainly to a bigger plant at Charlotte, North Carolina. But with rivals also making savings, the manufacturers are under pressure to pass the benefits on to their customers, putting further pressure on prices.

Orders are recovering this year after a slow-down last year caused by temporary delays in completing contracts in developing countries. However, in the absence of an unexpectedly dramatic increase, prices are unlikely to recover any of the 30 per cent fall seen over the past three years and could fall even further.

Mr Armin Meyer, director of the power generation division at ABB, the Swiss-Swedish group, says: "In volume terms, the world power generation market is still growing, but only by 2-4 per cent a year. In money terms, with the continuous cost reductions, I expect the market to be flat."

Mr Ron Pressman, vice-president of marketing at the power systems division of General Electric of the US, takes a similar view.

Some utilities protest that the manufacturers' complaints ring hollow, given their reluctance to cut capacity. But the plant suppliers' financial performance in the 1990s has mostly been dismal.

Last year, Westinghouse, one of the top six which dominate the market, posted a $207m loss in its power systems division, including write-offs. The other five integrated manufacturers – GE, ABB, Siemens, Anglo-French group GEC Alsthom, and Mitsubishi Heavy Industries – saw their margins squeezed. Only ABB increased its declared profits – and that by just 4 per cent.

The results are particularly frustrating for the manufacturers because in other respects they are performing well. Since the 1980s, they have adapted to the deregulation of the power industry in the US, the UK and elsewhere; they have developed sales in fast-growing markets in China and other emerging economies; they have cut factory costs by up to 50 per cent and launched new products at an ever-increasing pace. But they have little to show for their labours.

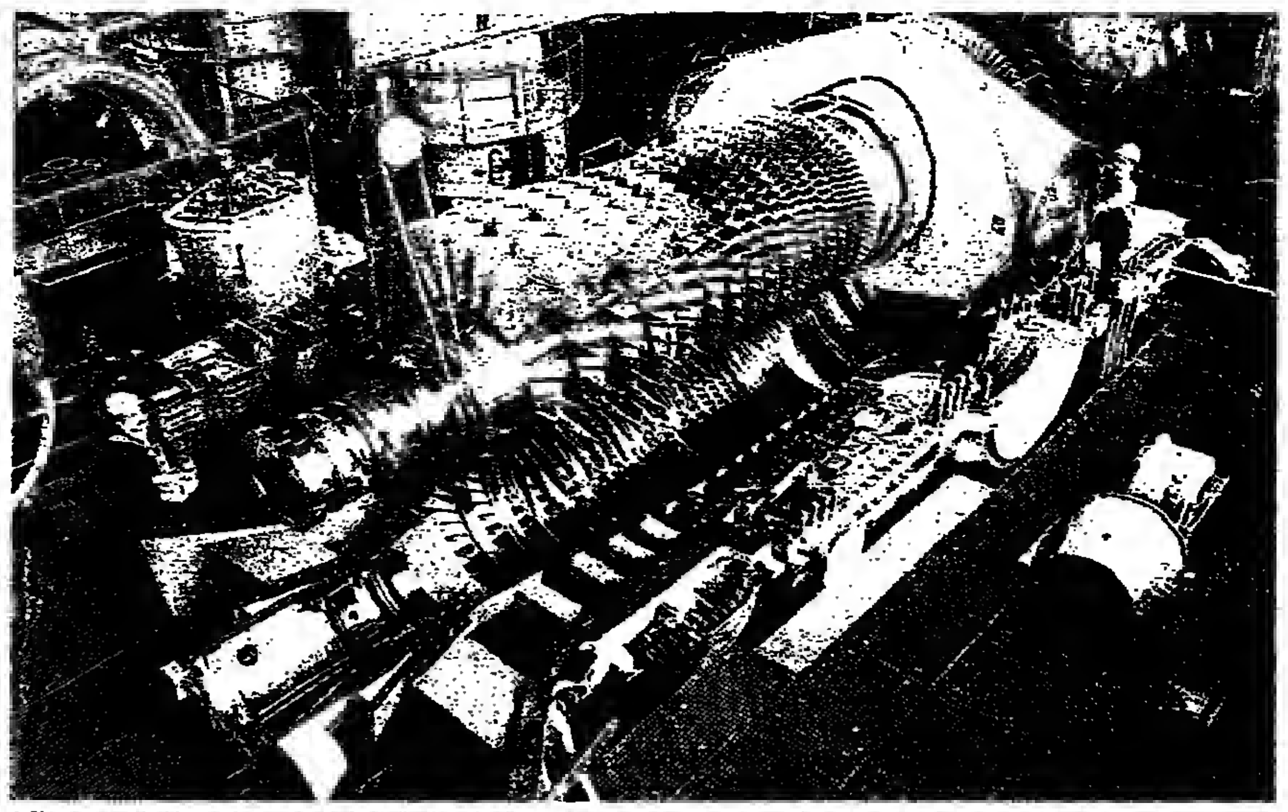
This is not what the industry expected when it geared up for expansion in the early 1990s in anticipation of growing orders, particularly from independent power companies in the developed world and in fast-growing Asian countries, especially China.

The forecast increase in orders has materialised far less quickly than most manufacturers predicted, particularly in gas turbines. According to GE, in steam turbines, manufacturing capacity stayed unchanged at about 70,000MW a year, about 10-15 per cent ahead of production. But in gas turbines, capacity rose 70 per cent in 1990-94 to 36,000MW, about 20 per cent ahead of production by last year.

In developed countries, it is now painfully obvious to manufacturers that deregulation in the US, the UK and elsewhere has not produced any prolonged increase in orders. After a brief flurry of sales to independent power producers, the markets have been soured by the uncertainty caused by the persistent downward pressure on power prices which is squeezing generators' margins.

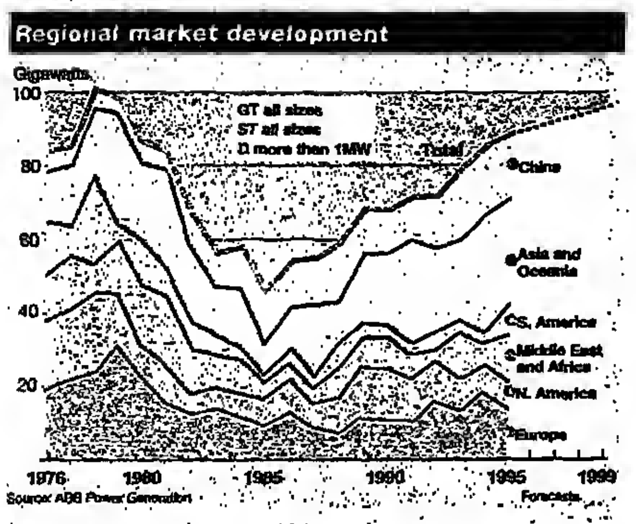
Plant manufacturers expect little recovery in demand in north America or western Europe before the year 2000. Even in eastern Germany, where unification produced a burst of new business mostly connected with cutting pollution from existing plants, virtually all the orders have already

Continued on Page 8

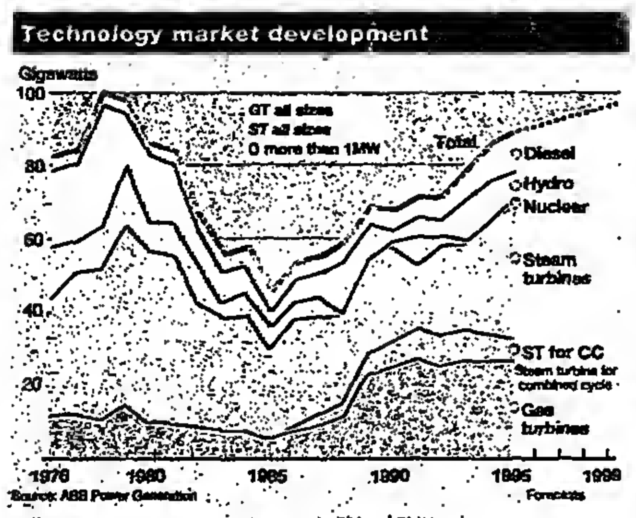


A Siemens gas turbine during assembly in Berlin. Siemens is one of the top six companies which dominate the power engineering market

Regional market development




Technology market development




A liquid crystal test aids design of GE's advanced gas turbine buckets



**Production Editor:** Philip Sanders

■ **Japan:** by Arnold Redhead in Tokyo

# Asia offers promise

**Fierce competition from European, US, Taiwanese, Singaporean and Korean equipment makers has forced some changes in the way the Japanese operate**

Asian countries' insatiable appetite for electric power to fuel economic growth presents Japan's power generation equipment manufacturers and utilities with opportunities to make up for a stagnant domestic market.

Power demand in Asia outside Japan is likely to grow at an estimated 8 per cent a year for the next four years, compared with about 2.5 per cent in Japan. China alone will add as much as 15,000MW each year for the next five years – equal to the total capacity of Switzerland.

The World Bank estimates that Vietnam will need 14 per cent increases in capacity each year until 2000.

Generating equipment suppliers such as Toshiba, Hitachi, and Mitsubishi Electric and their trading company allies have been operating outside Japan's borders for some time, with exports making up between 20 and 24 per cent of their power equipment sales. However, fierce competition from European, American, Taiwanese, Singaporean and Korean equipment makers and the strength of the yen has forced some changes in the way the Japanese operate. Mitsubishi Heavy Industries, for example, has followed the now standard path of shifting some design and boiler assembly work outside Japan, where lower costs help offset the strong yen. The company has design and assembly sites in the Philippines.

Others, such as Toshiba, have made strategic changes. Rather than simply export, they join international consortia often arranged by their trading company partners. Once in, they do not limit their role to equipment supply, instead offering their expertise in an EPC (engineering, procurement, construction) role, advising on all aspects of power projects.

Toshiba says it targets two or three such projects each year in Asia. It is working on a 1,000MW thermal power plant turnkey project in Anpara, India. The company is the full turnkey supplier for the project. The advantage of this kind of project, according to Toshiba, is that the company can procure local equipment and engineers, lessening its exposure to lost export sales revenue from sudden movements of the yen.

The strategy may also have the effect of turning the suppliers into competitors of Japanese trading companies. Traders such as Mitsui and Mitsubishi have traditionally filled the role of managers of projects, and may see this role usurped as exporters turn to new ways of doing business.

No matter how strong the lure of Asia may be, however, the Japanese say they are not likely to shift the main thrust of their power equipment business away from Japan. Low projected growth rates are compensated by the regular, stable source of income provided by the domestic market. Power utilities apportion large plant contracts among suppliers so that one company deals with only one project at a time.

> Encouragement from the government may be at hand

The system has been in operation for most of the post-war period, meaning that equipment suppliers always have something to put on the balance sheet. This has taken on increasing importance for companies such as Toshiba and Hitachi, who are seeing profits from other business lines, such as semiconductors and computers, fall amid severe price competition.

Meanwhile, debate has opened up in Japan over whether its 10 regional electric power utilities should bring their advanced technology to Asian markets. The debate was sparked after the Ministry of International Trade and Industry said in February it would ease a long-standing requirement that electric power providers concentrate on the domestic market. While never a legal restriction, Miti's "administrative guidance" effectively prevented power companies from offering their expertise outside Japan on anything other than a non-profit, information-sharing basis. Tokyo Electric Power, which supplies power to the capital and is the largest utility in Japan, has taken the first tentative steps, despatching a research team to Indonesia that may look into the joint building and operation with local and foreign partners of a 100,000kW coal-fired power station on Sumatra.

Of the other Japanese suppliers, only Kansai Electric Power, which operates in the Osaka region, is considering an overseas push. Others have only gone as far as expressing an interest in converting their non-profit consulting work into a full business.

The reason for the reluctance is that decades in a safe, stable and regulated environment have left the companies risk-averse. They cast wary glances at Asian markets and see large risk and low returns, or none at all, especially as developing nations tend to keep prices for electricity deliberately low. Other voices worry that if an overseas venture resulted in a loss, consumers in Japan would have to foot the bill through higher charges for electricity. Tokyo Electric Power officials say they realise they have to get involved in overseas markets because the Japanese power market will be saturated by the year 2000. The company says it gets requests to take part in power projects overseas almost on a daily basis.

Further encouragement from the Japanese government may be at hand. A report by Miti's Agency of Natural Resources and Energy, released on May 28, suggested government assistance for power projects overseas in the form of negotiations about lessening risk with local governments, increased export insurance and more financing from the Export-Import Bank of Japan.

■ **India:** by Mark Nicholson in New Delhi

# Things are going to get worse

**The power ministry believes the sole long-term solution lies in root and branch reform of the largely bankrupt or insolvent state electricity boards**

With India's pulverising pre-monsoon heat, and the commensurate rise in demand for power, came the now customary black-outs and power shortages. Consumers in New Delhi suffered rotating two-hour black-outs for much of May; those in Karnataka, where poor monsoon rains had diminished output from its hydro-electric plants, had already been enduring cuts of six to eight hours daily. Few Indian states have been immune from cuts or load-shedding this year.

And the outlook will blacken further before it improves. Four years into the government's policy of opening the power generation sector to private and foreign investment, none of eight big "fast-track" private power projects favoured by the government has yet cleared all necessary approvals.

Only two appear likely to proceed soon. The infamously on-off Dabhol power project in Maharashtra, led by Enron, the US power group, may be just weeks away from final central government clearances to resume the building which was interrupted last year when the new state government initially "cancelled" the project.

Meanwhile, the Mangalore power project, led by Cogentrix, another US power company, is also sanguine about receiving final central government approvals within weeks.

India's new United Front government has said it will continue to encourage substantial private and foreign investment into power. But it has become increasingly clear that such invitations alone are wholly insufficient to solve India's power crisis – one which already threatens to slow industrial output this year and next.

Installed capacity of more than 81,000MW already falls 20 per cent short of peak demand. The ministry has concluded that up to 142,000MW of new capacity will be needed to meet demand over the next decade. And without new private power – with central and state governments largely incapable themselves of big new project investments – incremental output has been modest.

Additional capacity rose by just 3 per cent in the 1995-96 fiscal year; at least one or two percentage points lower than the rise in demand. Much of this came from improvements in the poor plant load capacity of most installed public units. This rose from 60 per cent in 1994-95 to 63 per cent in 1995-96. For the last quarter of that fiscal year, units were averaging a PLC of 68.5 per cent, according to the Centre for Monitoring the Indian Economy, an independent Bombay-based research unit.

In part, the original power policy, hatched by the former Congress party government in 1992, has proven beset with delays and bureaucratic complexities, overlain by the additional complications of India's federal system which means independent power producers must negotiate both with the centre and the state. Most fundamentally, India's power ministry has long since concluded that the sole long-term solution lies in root and branch reform of India's largely bankrupt or insolvent state electricity boards.

"For the next four years there will be a deterioration in the power situation," says a western energy economist. "The only way this can be ameliorated is to reduce some of the state electricity board losses."

The SEBs are the primary generators, transmitters and distributors of Indian power, but they are beholden to the state governments and are therefore highly politicised,

New Delhi: consumers suffered two-hour black-outs Picture: Tony Andrews

lacking either managerial or commercial freedom. As a result, virtually none of them charge remunerative tariffs and, in particular, almost all charge at best notional charges to farmers, a politically vital constituency in a country where 70 per cent of people live in rural areas.

The consequences of these subsidies are inevitable and grave. The World Bank estimates that the commercial losses of the SEBs totalled $2.2bn in 1996 – about 0.8 per cent of India's gross domestic product – and they are rising.

Because the SEBs represent the prime purchasers of any privately-generated power, the government's desire to attract foreign and private investment is likely to continue to founder without reform of the SEBs sufficient to make them at least solvent. Hence the focus on SEB reform of the World Bank, the Asian Development bank and an increasing number of bilateral aid donors. The Bank and the ADB now both make loans to power projects contingent on states' willingness to undertake structural reforms.

So far only one state, the poor north-eastern state of Orissa, has grasped the nettle of reform. The World Bank earlier this year approved a loan of $350m towards a $997m project, backed also by British and ADB aid, to finance the wholesale restructuring of the Orissa SEB, one of India's worst performers. Donors and India's power ministry both hope Orissa will become a trail-blazing model.

Under the project, Orissa's state government has undertaken gradually to withdraw as an operator in the power sector. The SEB will be unbundled into separate generating, transmission and distribution companies; thermal generation and distribution will be privatised; the private sector will be encouraged in all new hydro-electric generation projects; an independent regulatory commission will be formed; and tariffs will be adjusted. The state has already passed laws to enable this radical transition and tariffs have already risen – by an average of 17 per cent in April, following passage of the new laws.

The Bank believes that successful implementation could eliminate power restrictions in the state by 2000 as private generation becomes more viable. Orissa has advantages over other states – it is among India's most coal-rich states. Most significantly, however, only 6 per cent of its power consumers are farmers, making it politically easier for the state government to adjust tariffs.

The reformist zeal of other states has been limited by the fact that most have a far larger agricultural consumer base. But some states are cautiously entertaining radical reforms, forced largely by the desperation of their power position and in some cases the near bankruptcy of state coffers.

The next member of the reform club could be the heavily agricultural northern state of Haryana, where 40 per cent of consumers are farmers. The state has already endorsed Orissa-style reforms and drafted the necessary legislation. The World Bank is also holding talks with neighbouring Rajasthan. And there are glimmerings of serious interest in reform in the poor states of Uttar Pradesh and Bihar.

But virtually all hopes of rescuing India's power crisis rest on states undertaking such reforms. More immediate alternatives to boost power output are "extremely limited", according to one energy economist. "Short-term measures have virtually been exhausted," he says. These have included the commissioning of small lignite-based power units in some states, and tendering for mobile power "barges" to moor outside heavily power-deficit states such as Karnataka.

Meanwhile, prospects for foreign and private power groups appear restricted. "On the basis of the existing SEBs and available government and financial sector guarantees for financing, it is possible to finance a handful of projects," says the representative of one big foreign power company. "But the bulk of the investment India needs is going to have to wait for the reform of the SEBs. It is going to be a long process."

■ **China:** by Frank Gray

# The most ambitious target

**Expansion centres on hydropower, coal-fired generation, and a nuclear power programme likely to be the biggest in developing Asia**

China has set itself the most ambitious target of any Asian country for the installation of new electricity generating capacity. By constructing more than 15,000MW of new capacity a year – which it has been doing since the late 1980s – it hopes to reach a level of 300,000MW by the end of the century.

Having just passed the 200,000MW mark by the end of 1995, China will probably fall short of its objective, but analysts are agreed that its efforts have been impressive, particularly because the programme so far has been carried out under the umbrella of centralised planning in Beijing.

Some private sector power projects initiated by such Hong Kong-based groups as Hopewell Holdings in the late 1980s and more recently Cheung Kong Holdings, China Light & Power and New World Development Corporation, in collaboration with Chinese partners, have given the expansion plan some momentum, particularly in the commercially-driven southern provinces.

But the long-expected influx of foreign independent power producers (IPPs) is still on hold, pending China's announcement of a clearly-defined framework for build, operate, transfer (BOT) projects and introduction of satisfactory safeguards for investors in foreign-sponsored projects. Progress on the so-called BOT policy is vital if foreign investors are to make a large contribution to China's power expansion programme and relieve the national treasury of pressure on funds.

Nevertheless, expansion is continuing at a fast pace, centering mainly on hydropower, such as the giant Three Gorges project; coal-fired generation, the backbone of China's capacity programme; and a nuclear power programme which is likely to be the biggest in developing Asia.

The Three Gorges programme on the upper Yangtze River, the largest hydropower scheme in the world, has been in preliminary construction since late 1994. It will test China's ingenuity given the widespread protest against it by "green" groups and the clampdown on export-import bank funding by the US and Japan.

According to Chinese officials, the project calls for 18,200MW of capacity at a high dam, to be supplied by 26 turbines of 700MW capacity each, 12 of which will be imported from foreign suppliers. The Chinese authorities say the project will cost $28.8bn to construct, with completion estimated by 2011. The objections revolve around a multitude of environmental issues, of which the most important is the future of the 1.3m people who will be dislocated by the huge reservoir. Other concerns focus on wildlife, waste water treatment, soil conservation, and deforestation.

The US Export-Import Bank said that US companies could negotiate export deals with the China Yangtze Three Gorges Project Development Corporation but they would have to do without Eximbank funding until the environmental problems were addressed. China says it will raise funds through bond issues and a surcharge on electricity tariffs elsewhere in China.

World Bank and Asian Development Bank funding is also unlikely, given their own stringent environmental concerns. Also, the two institutions are backing other hydro and coal-fired power projects in China. Last year, the ADB allocated $200m for a thermal scheme in Henan and a further $170m for the Fujian Mianhuatan hydropower project. Earlier this year, the World Bank approved $440m for the Henan power scheme and last year cleared $400m to back generation-transmission projects in Zhejiang and $270m for a power transmission network for Sichuan province.

> The World Bank approved $440m for the Henan scheme

Chinese determination to press ahead with big projects has been extended to the nuclear sector. Last year, the China National Nuclear Corporation (CNNC) finalised a deal with Framatome of France for the supply of 1,800MW of new capacity at Ling Ao, near the existing 1,800MW Daya Bay complex, north-east of Hong Kong, also supplied by Framatome and in operation since 1994. Earlier this year, it brought forward its nuclear programme by a decade, announcing plans to have installed, or started, construction on 20,000MW of capacity by 2010 instead of 2020. Its nuclear capacity – Daya Bay plus 300MW at Qinshan – now totals 2,100MW. In addition to Framatome, two of the suppliers will be the Russians, with 2,000MW at Liaoning: and Atomic Energy of Canada, with 1,400MW at Qinshan.

Despite concerns among foreign IPPs, a number of BOT projects have been approved or are under negotiation. Among the latter is the 700MW coal-fired scheme at Laibon in Guangxi province, which is now being evaluated by China's Bridge of Trust organisation after the short-listing of 10 foreign groups. A 1,000MW coal-fired project in the Shenzhen special economic zone is being negotiated by a partnership of Chinese regional power companies and Japan's Kanematsu Power Company.

The AES power utility group of the US, through its China subsidiary, is building five power units with Chinese joint venture partners with a total capacity of 148MW and announced in May agreement for the the installation of a 250MW coal-fired complex in Henan. And earlier this month, Taiwan's Formosa Plastics Corporation announced a preliminary agreement to undertake a giant 3,600MW coal-fired complex with the Fujian provincial government.

Several unusual financings have also taken place. Standard Chartered Investment Bank of Hong Kong recently secured underwriting for a $124m term-loan facility for the Shanghai Zhadian Gas Turbine Power Generating Company. Standard said the loan was being financed without a Chinese bank guarantee that the local currency debt service payments will be convertible into hard currency. The funds back a 400MW thermal power project involving an international partnership.

Japan's Export-Import Bank is negotiating $1.2bn financing for a 1,320MW coal-fired complex in the Zhuhai special economic zone. The joint venture project involves a local utility and Hutchison Whampoa and Cheung Kong of Hong Kong.

*The author is editor of Power in Asia, an FT energy newsletter*

■ **Eastern Europe:** by Anthony Robinson

# Demand is rising rapidly

## The emphasis for the rest of this decade at least will be on retrofitting and upgrading existing plant and completing projects

Energy demand is rising rapidly again in eastern and central Europe as industrial production and real incomes recover from the cruel battering both received in the immediate aftermath of the collapse of the region's wasteful centrally-planned economies.

This is good news for the power generating industry, but even more so for those companies who specialise in revamping and modernising existing plant and/or in reducing the high levels of both waste and environmental pollution which characterised both power generation and heavy industry generally in the communist period.

Capital on the scale required to scrap and rebuild power stations and generating equipment in the region to modern standards is simply not available. There are so many competing demands for scare investment resources and still so little in tha way of domestic capital formation. So the emphasis for the rest of this decade at least will be on retrofitting and upgrading existing plant and completing projects, including saveral nuclear power generating schemes, which were started in the 1980s but moth-balled after 1989.

The most controversial of these completion projects is the Mohovce nuclear plant in Slovakia whose completion was blocked by lack of funds under the old regime and then by opposition from neighbouring Austria and a dispute with the European Bank for Reconstruction and Development.

The EBRD was only prepared to help finance completion if it was undertaken by western contractors to full EU safety standards. The Slovaks balked at the conditionality, and the cost, and opted instead for a cheaper version involving Czech constructors and Russian as well as western technical assistance.

The Czech republic took a more conciliatory, and expensive line, by awarding the main contracts for completing the Temelin nuclear plant to Westinghouse of the US. But in both cases the arguments for completing the two Soviet-designed plants were couched in ecological as well as economic terms.

*Completion of Mohovce will* allow the closure of older, and more risky, Soviet plants in Slovakia. The energy output from Temelin will enable the Czech government to phase out the highly polluting lignite-fired power stations in northern Bohemia and elsewhere which have created an ecological wasteland and grave health hazards downwind of them.

Until now, nuclear and hydro power plants have been seen largely as alternatives to the conventional coal- or lignite-powered stations which still provida well over 90 per cent of Poland's energy production, for example, and well over 60 per cent of base energy output in most other states of the region. In the 21st century, however, it is likaly that an increasing proportion of power generation in the region will come from highly efficient and environmentally friendly gas-fired combined cycle generating plants as in western Europe and elsewhere.

Some of the gas will be home produced. Both Poland and Ukraine, for example, are believed to have substantial indigenous natural gas resources and virtually unlimited potential for coal gasification. But much of the gas for future generating and other purposes will come from northern Siberia and central Asia via two new high-capacity gas pipelines currently under construction.

The huge potential demand for new and upgraded power stations and generating equipment in east and central Europe, and the availability of cheap, skilled engineering workers, has also proved a magnet for the hig multinational power generating equipment manufacturers.

The eastward march has been led by Asea Brown Boveri (ABB) which was the first to spot the potential and back its hunch with money and resources.

Completion of Mohovce will allow the closure of older, more risky, plants

Starting in Poland, where the group now owns a string of plants and employs more than 8,000 people, ABB has rapidly expanded into the rest of the region. It now employs 30,000 of its global 211,000 payroll in the former communist states and expects annual turnover, currently running at more than \$1.8bn, to reach between \$3bn and \$4bn by the turn of the century. This figure includes Russia where it is busy expanding its grip, often using personnel from its Polish and Czech plants to transfer their recently-acquired ABB technological and management skills.

In the meantima, however, the rise in energy prices – as well as most other prices – to world levels or thereabouts has had a sobering effect on energy consumers. Cost-conscious consumers are now demanding value for money while the higher cost of energy inputs has raised the attractiveness to power generators of relatively cheap and effectiva retrofitting technologies, especially those capable of reducing waste and pollution and raising efficiency.

A prime exampla is Nalco-FuelTech, a joint venture between Nalco of the US, the world's biggest speciality anti-pollution chemical producer, and FuelTech, which is based in London but registered in the Dutch Antilles.

The company's combined technology system reduces sulphur dioxide, nitrogen oxide and dust emissions from power stations, boiler houses and other combustion plants by relatively simpla and retrofitable technology which is easy and cheap to install and maintain. It works by injecting a cocktail of chemicals into flue gases. The process not only cut emissions dramatically but also allows the power generator to use cheaper, lower-quality coal.

Such a combination is particularly interesting for countries such as Poland, which has turned its back completely on nuclear power and is struggling to support its large coal industry, and the Czech republic and Ukraine which are also large coal producers. Faced with the huge cost of fitting conventional wet flue gas desulphurisation (fgd) scrubbers, the Czech republic opted instead to retrofit Nalco-FuelTech's low-cost simultaneous "Sox, Nox and particulate reduction" system which, according to FuelTech, has a capital cost of only \$5-\$20 per kilowatt, compared to \$175-\$350/kW for conventional wet fgd technology, and much lower running costs.

But the biggest market for such technology is Poland where FuelTech estimates that about 780 boilers of all descriptions, from power and district heating plants to cement and metallurgy plants and waste incinerators, are suitahla for retrofitting.

A pilot scheme at a heat and power plant at Legnica in south-west Poland is ready to come on stream in the autumn. It is being closely watched by the nearby Polska Miedz copper refinery and other high energy producers and generators seeking lower costs and higher efficiency without large-scale capital outlays.

■ **Russia:** by John Leslie

# Reforms start to take effect

## The rate at which demand recovers depends upon general economic reforms and further restructuring within the industry

The sheer scale of the Russian generation system could have been expected to generate billions of dollars of orders for western suppliers, especially given the lack of investment in the system in the 1980s. However, the level of orders has only relatively recently began to pick up as the effects of reforms in the sector begin to take effect.

The system still has many flaws and inconsistencies allowing some domestic companies to generate high levels of profits while others struggle with lack of capacity, debts and ageing plants. As western investors gradually increase their exposure, the scope for contracts looks set to grow as well – especially given the scope for huge efficiency savings through the application of modern technology to existing plants.

The Russian electricity sector is dominated by the joint stock company Unified Electrical Power System of Russia (RAO EES Rossii) and some 72 regional distribution companies (energos). Responsibility for the country's nuclear generation capacity is with Rosenergoatom.

The Russian generation system, consisting of 600 thermal plants, more than 100 hydro facilities and nine nuclear plants, has a total capacity of 212,000MW. RAO EES controls most thermal plants over 1,000MW and hydro plants over 300MW, representing 43,000MW or 18 per cent of generation capacity. Nine power plants are leased by the company to local energos which are important generators in their own right, owning about 135,000MW of capacity.

In tha past few years, Russian electricity demand has decreased steadily, mainly due to reduced industrial activity with total supply declining from 1,077TWh in 1990 to 851TWh in 1994.

The rate at which demand recovers depends upon general economic reforms and further restructuring within the industry. Household tariffs remain lower than industrial tariffs, the opposite to the situation in most Organisation for Economic Co-operation and Development countries, and tariffs vary by region so that the relationship between costs and prices remains clouded.

In addition, "there is enormous potential for electricity savings in Russia," according to the International Energy Agency (IEA) mainly through efficient pricing policies, improving standards of electrical appliances, demand side management programmes and increased availability of energy efficient technology. According to the IEA, estimates of the annual demand reduction potential range up to 390TWh.

The uncertainty over demand levels makes planning capacity replacement even more complicated. However, irrespective of future demand levels, the age of much of the country's plants means that 40,000MW of existing capacity will have exceeded its design life by the year 2000. While capacity replacement throughout the 1980s was around 5,000MW a year, this slowed in the 1990s with only 700MW replaced in 1992 and 2,400MW in 1993.

Under the old system, the federal budget financed capital investment but with reforms the system now has the responsibility itself. Serious financial difficulties caused by non-payment, inflation and various flaws within the tariff system meant that investment financing dried up, leading to the establishment of investment funds by RAO EES and the energos in 1992.

According to the IEA, there are considerable disparities in profitability of the energos by region and by enterprise. These arise from differences in fuel costs, demand characteristics, the structure of the local market and inherited welfare obligations. There are also regional disparities in terms of capacity which allow some of the energos to generate healthy profits by selling excess generation to the grid to cover the shortfalls in other regions.

The investment funds of the companies involved in the sector have now become the principal source of funds for new generation capacity and other requirements. Restructuring in the sector has enabled the companies themselves to assume more responsibility for investment decisions. Some 75 per cent of the total thermal and hydro capacity was placed with the energos and, in another phase, 51 per cent of each company's shares were distributed to local authorities, management and staff and to voucher holders via auctions.

Forty-nine per cent of the shares in energos are controlled by RAO EES. While the majority of shares in RAO EES are still held by the government, the privatisation process has enabled companies in the sector to raise money abroad and allowed foreign investors to obtain stakes.

The largest energo, AO Mosenergo, which supplies the Moscow region, is in a relatively sound financial state.

**ABB achieved sales of \$350m in Russia in 1994**

This is reflected in the fact that some 19 per cent of the company is held by foreign investors, according to Salomon Brothers, the company's advisors.

Salomon was the sole manager for a \$22.5m private placement of American Depositary Receipts last year, the first ADR offering for a Russian company which opened the company to US mutual funds and other regulated investors.

In terms of size, AO Mosenergo is only second to RAO EES with installed capacity of 14,478MW which generated 23.39TWh in the first quarter of this year. In the first quarter, the company sold 13.5TWh of electricity to local customers in the Moscow region and 4.5TWh to the national grid wholesale market. Sales in the first quarter totallad Rbs3,614.5bn, generating net profits of Rbs1,040.3bn.

This level of revenue allowed tha company to maintain its rata of construction despite what it describes as a sharp increase in construction costs and an increase in non-payments. The company was therefore able to commit some Rbs757bn to capital investment in the first quarter of the year, of which Rbs331.2bn came from net profits. The success of such companies has allowed western companies such as ABB, Siemens and IVO to attain a gradual increase in orders from Russia after a slow start. Most of this work is carried out through joint ventures between the western companies and established Russian manufacturers of equipment.

ABB achieved sales of \$350m in Russia in 1994 and has established 19 joint ventures there. In March this year it announced it had won a \$100m contract from Omskenergo to help refurbish the company's HPP-3 plant in co-operation with Russian companies.

One area that is likely to figure highly is the expansion and refurbishment of cogeneration capacity. Some 69 per cent of Russian generation capacity is thermal, mainly fuelled by gas because of the country's abundant supplies, of which half is in the form of combined heat and power plants. Russia has the largest cogeneration capacity in the world and one of its largest markets is likely to remain that for modern, efficient gas turbines for enhancing these plants.

According to German electrical and electronics group Siemens, the application of modern, combined-cycle technology at existing heating-only plants offers an energy conservation potential of about 15-25 per cent compared to present levels of consumption – representing potential gas export earnings of DM6bn a year. Since 1992, RAO EES has ordered Siemens-built units for St Petersburg, Dzershinsk and Omsk which are being built by the LMZ-Siemens joint venture Interturbo.

However, the pace at which it and other generators in the Russian market can continue to do so will to a large extent depend upon the implementation of further reforms within the electricity market and the pace at which this happens remains a matter dependent on the outcome of other variables, including the presidential election.

## 4 POWER GENERATION EQUIPMENT

**Finance:** by Stefan Wagstyl

# Considerable challenges

### Lenders have been willing to take the risks in return for an extra premium over the rates of interest earned on corporate loans

Just as independent power producers are building an ever-increasing share of new power stations, so financial companies are developing ever more sophisticated ways of funding their projects.

Traditional utilities, whether state-controlled or privately-owned, still account for the bulk of ordera for new schemes. They usually raise funds from their own resources, or through bank loans secured by their balance sheets. In the case of government-owned utilities, these can be supported by government guarantees.

But Independent Power Producers (IPPs) are multiplying rapidly and now account for 30 per cent of the market for new power plant, compared with less than 5 per cent 10 years ago. They are spreading from the US and the UK, where they first developed following deregulation, to other countries, notably developing nations in Asia, which need private finance to help fund fast-growing electricity needs.

The expansion of IPPs is attracting a atrong band of banks and securities companies into the market for financing schemes, principally through project finance. The complexity of the financings – and the commercial and political risks attached to many schemes – mean the challenges involved in financing are considerable. But so, equally, are the potential rewards for the houses which construct effective packages.

The commercial banks active in the market include institutions in the US such as Chase Manhattan Bank and Citbank and in the UK, including National Westminster Bank and Barclays Bank. Investment banks in the field include Morgan Grenfell, a subsidiary of Germany's Deutsche Bank, and JP Morgan, Goldman Sachs and Morgan Stanley of the US.

Mr Jeremy Wilson, a vice-president at JP Morgan says: "The trend is for a huge increase in demand for project finance." Mr Bob Mabon, managing director of structured finance at BZW, the investment banking arm of Barclays, says: "You are seeing a spread of project financing structures from the US and the UK to developing countries."

The main challenge in financing a power station project directly, instead of lending to the utility or company which owns the plant, lies in managing the risks involved.

Typically, a power development company organises a consortium to invest equity in the scheme, which may account for 25 per cent of the total cost. The consortium often includes the power equipment supplier, which contributes capital in return for plant orders. The remaining 75 per cent of the project is normally financed by banks.

Usually, a power station can only be financed in this way if there is a firm agreement from a utility to buy its output – the power purchase agreement.

The main risk is that the finance is tied to a single scheme: if it goes wrong, the creditors have no access to other assets or to the assets of the equity investors in the project. Nevertheless, the role of electricity generation at the core of economic activity has given the industry a reputation for extreme stability of earnings. So, initially in the US in the 1980s, and later in the UK, lenders have been willing to take the risks in return for a premium over the rates of interest earned on corporate loans.

Even in developing countries with high political risks, developers have not found it difficult to secure equity for schemes, especially if a top-class equipment supplier supports the project. The attraction is the high rates of return available if the project goes well – ranging from 15 per cent in the US to 20-25 per cent in developing countries.

But loan finance has been harder to put in place, mainly because banks are obliged to take more account of the potential risks than developers and because banks are reluctant to tie their funds up for too long. The last consideration is important in power station finance because plants have long lives – typically 25 years or more. Ideally, the borrowers would like to spread loan repayments over this time, but banks are not eager to lend for more than 10 or 15 years. The solution has been to finance a project for the first 10 years and refinance it later, often after construction is complete. But in the past five years, financiers have increasingly looked to bonds – with issue lives of up to 25 years – to close the financing gap.

Starting with private placements, the market developed rapidly in the US. In 1993, the first IPP bond was listed on a stock exchange, under the limited terms of rule 144A of the Securities and Exchange Commission. This issue, by Sithe Energy for a 1,000MW scheme at Scriba, New York state, paved the way for a host of other North American IPP bonds. In Britain, the market has developed more alowly but has more than kept pace with the US in financial innovation.

In January this year, First Hydro, the pumped storage business of the National Grid, was bought by Edison Mission, the US energy development company, for £635m. Some £400m of the purchase was funded by 25-year sterling bonds issued by First Hydro, with no recourse to Mission. BZW, the lead manager, says the issue broke new ground because First Hydro has no long-term power purchase agreements with electricity distributors.

Pumped storage is a special case. Mr Mabon believes that the next challenge will be the financing of merchant plants – thermal power stations with no power purchase agreement, selling electricity on short-term contracts to utilities.

In developing countries, non-recourse bonds for project finance are only just beginning to make an impact on power generation. Their development was interrupted by the 1995 Mexican debt crisis, which saw many US holders of Mexican bonds selling their paper and cast a shadow over finance for developing countries in general.

In China, potentially the largest market for IPPs in the developing world, the first IPP scheme has yet to be completed. The Chinese government and would-be developers have still to resolve important issues, including rights of ownership of power stations. Export credit guarantee agencies – such as the US Export-Import Bank and Germany's Hermes – have also to finalise their policy towards financing IPP schemes in China.

In India, only two IPP schemes have seen their financing completed – the politically controversial Dhabol project in Maharashtra state and the Gujarat Torrent scheme in Gujarat. Other projects have been delayed by arguments over state guarantees and power purchase agreements.

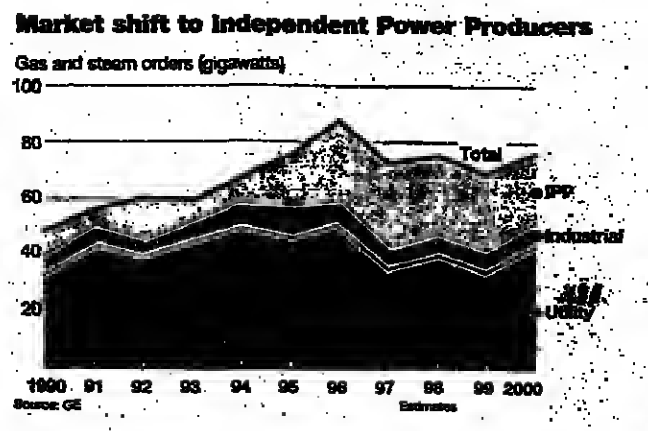
However, other countries have brought many more schemes to fruition, including Malaysian, Indonesia, and Pakistan, which has about six IPP schemes. Investment banks believe that the Pakistani schemes are particularly significant because the projects have been funded despite the general perception that Pakistan is a politically unstable country with high risks for investors. The schemes have been completed because they have been strongly supported and pushed through by the central government on terms attractive to investors.

Elsewhere, the most significant financing has been for Jawa Power, a $1.7bn coal-fired plant at Paiton, east Java, on the site of an existing power station. The developers, led by Siemens of Germany and the UK's PowerGen, together with J P Morgan, their financial adviser, have put together a package of equity and loan finance which includes $200m of bonds placed privately with US institutions.

Mr Tim Leissner, a vice-president of JP Morgan, says this is the first time such bonds have been issued for a power project in an emerging country before the plant was built and with no guarantee of completion from the developers.

Mr Wilson says the next step will be the opening up of the rule 144A market for developing country schemes. Because many US institutional investors can only buy publicly-traded instruments, such a development would give developers access to billions of dollars of savings.

**Market shift to independent Power Producers**




**Servicing:** by Stefan Wagstyl

# Better profits to be made

### Liberalisation of the power industry and the development of independent power producers has changed the nature of the service business

For power engineers, the ultimate professional satisfaction may still lie in building a big new state-of-the-art plant from scratch. But for power engineering companies, better profits are increasingly to be made from the more mundane business of servicing and renovating existing plants.

The intense competition for contracts for new power stations in the 1990s has driven plant suppliers to expand their service business. At General Electric, for example, service now accounts for just over half the $4bn revenues of the power systems division, compared with one third five years ago. The (undisclosed) share of profits is even higher.

GE benefits enormously from having the largest installed base of turbines of any producer. But others are not far behind. At Westinghouse, service's share was about 50 per cent of sales of $3bn. At ABB, the figure last year was about 20 per cent of the $10.3bn turnover in power generation.

Mr Armin Meyer, who runs ABB's power business, says: "Service revenues are growing faster than new business. And if you do a good job, you can get a nice margin."

Mr Ernie Gault, vice-president for service and parts at GE, says: "It is not just a question of selling spare parts. It is all about getting much closer to the customers and helping them to develop solutions to their problems."

The expansion of their service businesses by the big plant suppliers has increased the competition for smaller specialist service companies. But the market as a whole has increased because power station operators are demanding higher levels of service, partly in response to commercial pressures and partly because of technological changes which have created new opportunities in servicing.

The main shift in the market which has changed the nature of the service business has been the liberalisation of the power industry and the development of independent power producers.

Before deregulation, state-owned utilities typically bought high-specification power stations with a service life of 30 years or more and employed teams of in-house engineers to service their plants with parts purchased from the original equipment supplier.

In today's increasingly-liberalised markets, new independent power producers and old-established utilities alike are having to be more cost conscious. They are less likely to demand ultra long-life components, preferring to spread their costs over the life of a plant by spending more in later years on servicing.

Many operators have also reduced in-house service teams to save money, finding it more economical to outsource such services.

At the same time, tha arm's-length relationship between plant supplier and customer is being replaced by closer ties. Plant suppliers are being asked to invest in projects and sometimes play a role in its management long after construction is finished in build-operate-transfer and build-operate-own agreements with utilities.

The growth of independent power production in developing countries has added further demands for service skills, particularly in sites with little indigenous technical know-how.

With funds for new projects at a premium, there is also an increasing need for raising the efficiency of existing plants by improved servicing.

These changes in the market place have coincided with the rapid spread of computer-based technologies, which have allowed companies to develop increasingly sophisticated services.

By constantly monitoring turbines and other equipment in action, operators are able to develop a continuous picture of a plant's technical strengths and weaknesses. Instead of having to wait for a break-down, operators can carry out preventative work in advance. They can also time routina maintenance more accurately, varying the intervals for different plants.

Manufacturers can take this monitoring one step further. By accumulating performance data from plants at different sites, even in different countries, they can build an extensive library of operating information, allowing the development of even more sophisticated service packages.

> New technology permits development of remote-control servicing

New technology is also permitting the development of remote-control servicing. Specialist engineers in service centres can use modern telecommunications links to gather data and transmit possible solutions to problems without ever visiting the power station.

For power plant suppliers, the first fruits of these changes came in the late 1980s, but they are multiplying rapidly now. GE, for example, has long-term operation and maintenance contracts for 13 plants, where GE staff run plants for customers for a fee based on performance. At 12 other plants the company has installed sophisticated monitoring kits to check the long-term performance of its turbines. Twenty more are in the pipeline.

ABB has signed a long-term agreement with Commonwealth Edison, the US utility, under which it is committed to raise the reliability and profitability of four plants. It will be paid from a share of the savings.

Mr Gault at GE forecasts a global web of computer, voice and video links in which engineers will easily exchange information and profit from each other's experiences.

"The business will be able to respond more effectively and more quickly to customers," he says.

These developments will not necessarily exclude the specialist service companies. They tend to be cheaper than the big plant suppliers. They also claim they respond more rapidly. However, they may find it increasingly difficult to compete with the plant suppliers' ability to offer integrated long-term service packages.

■ **Nuclear fusion:** by Clive Cookson

# Encouraging research results

## Europe lies somewhere between Japan and the US in the availability of funding for fusion projects

The political climate worldwide is becoming less hospitable to the expenditure of vast sums of public money on energy projects whose commercial pay-off lies at least 40 years in the future. As a result, the prospect that nuclear fusion will make a significant contribution to the world's energy supplies by the middle of the next century is receding.

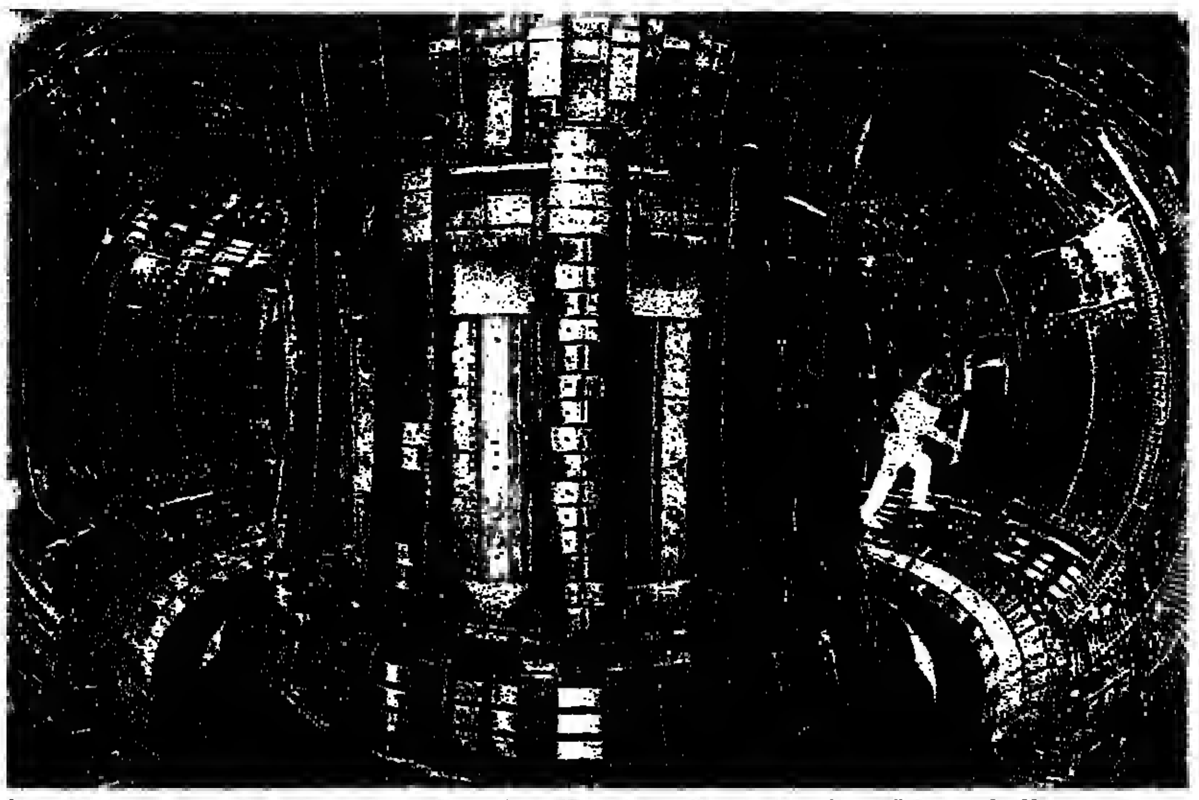
Nothing has happened on the technical front to spoil the scientific case for fusion: that in the long run the best technology for generating electricity cheaply, cleanly and on a large scale is to replicate the power of the sun on Earth. This means the controlled release of energy through fusing together the nuclei of very light atoms – as opposed to today's nuclear industry which splits heavy atoms.

On the contrary, recent research results from fusion experiments – notably the Joint European Torus (Jet) at Culham in Oxfordshire and the Tokamak Fusion Test Reactor at Princeton, New Jersey – are encouraging. Both Jet and TFTR have generated brief bursts of fusion energy in a superheated gas "plasma" within their doughnut-shaped reaction vessels; analysis shows that the plasma was heated by the release of energy in the way that would be required to sustain a reaction in a commercial fusion reactor.

Jet and TFTR are themselves large and expensive projects, costing several hundred million pounds each. But the next stage, the International Thermonuclear Experimental Reactor (Iter) that would demonstrate the technical feasibility of fusion as a large-scale energy source, has an estimated price tag in the $6bn to $10bn range. Iter would generate 1,500MW of power – as much as today's largest nuclear plants – for periods of up to 30 minutes.

Engineers from the European Union, US, Japan and Russia started designing Iter in 1992 as a global project. Their work is scheduled to finish in 1998. Then the hard bargaining will begin, over the location and funding of Iter.

The US government is cutting back particularly hard on its support for fusion; there may not even be enough money to keep the Princeton TFTR running after next year. So the prospects of the US putting a lot of money into Iter look slim. On the other hand, Japan – which remains strongly committed to long-term nuclear research and development – has suggested informally that it might be prepared to meet most of Iter's costs, if the other participants accept a Japanese location for the project.



Inspecting the interior of the Jet vacuum vessel. Last month, the EU agreed to extend the Jet project until the end of 1999 *Picture courtesy of JET*

Europe lies somewhere between Japan and the US in the availability of funding for fusion projects. Last month, the EU agreed to extend the Jet project, which had originally been scheduled for closure at the end of this year, until the end of 1999.

Jet recently completed a nine-month shut-down, during which its "divertor" (exhaust system) was changed to improve the reactor's operational capacity. A series of experiments later this year and next year will use, for the first time, the 50:50 mixture of deuterium and tritium (isotopes of hydrogen) that is optimum for fusion.

So far, most Jet experiments have been aimed at learning how to confine and control a plasma at temperatures above 100m°C rather than to achieve fusion. They have used only deuterium, because this does not make the reactor vessel radioactive.

In 1991, however, 10 per cent of tritium was added to the deuterium. This produced significant fusion power – peaking at 1.7MW and averaging 1MW over two seconds – and provoked ecstatic newspaper headlines about science taming the power of the sun. Jet researchers expect the 50:50 mixture to generate 10MW of fusion power over several seconds but it will not achieve the "ignition" point at which the reaction becomes self-sustaining.

At the same time, Euratom, Europe's co-ordinating body for fusion research, has agreed funding for two smaller new machines. One is the Wendelstein 7X "stellerator" in Germany. The stellerator is an alternative containment vessel to the Tokamak used for TFTR and Jet. It holds the plasma in place solely with a magnetic field generated by external coils, while the Tokamak uses the plasma itself to generate a current and hence a further magnetic field.

The other new machine will be the Mega Amp Spherical Tokamak (Mast), to be built close to Jet at Culham. It will develop the idea that a round Tokamak may give better results than the doughnut-shaped Torus.

So far the vast majority of funds for civil fusion research have been devoted to "magnetic confinement" projects. Magnetic fields are used to hold the plasma in place and prevent it touching the reactor walls, because no materials can withstand temperatures of millions of degrees. But some scientists believe that a radically different approach to fusion – inertial confinement – deserves more attention. Here, a powerful laser or ion beam is used to compress a tiny pellet containing deuterium and tritium so fast that the fusion is complete before the plasma can expand and extinguish the reaction.

An inertial confinement reactor would generate power by burning a steady succession of pellets, each weighing no more than a few milligrams. Tha process would be like exploding a series of miniature H-bombs once a second – and indeed most inertial confinement research was a classified military secret until the 1990s because its main applicatioo was to develop nuclear weapons.

Now that inartial confinemeot is being declassified, it is attracting interest as potentially a more flexible and cheaper alternative to the multi-billion-dollar reactors that are likely to be required for generating fusion power through magnetic confinement. But oo serious engineering design work has yet been done for a possible inertial confinement reactor.

With these oew possibilities opening up – and possibly offering budget-conscious politicians a good reason to postpone making a decision on Iter – it seems likely that fusion will continue to justify the critics' old quip that its commercial reality always lies about 40 years in the future.

■ **Nuclear power:** by Simon Holberton

# Focus is on the east

## The prospect of a new nuclear station being built in North America or western Europe is remote

Io this 10th anniversary year of the Chernobyl catastrophe in the Ukraine, the world's ouclear power indnstry is doing a little hetter than might have been expected.

The understandable nuclear allergy which the Chernohyl disaster produced seems to bave had only muted effect on the plans of governments to install nnclear power stations.

At the end of 1995, according to the International Atomic Energy Agency, the Vienna-hased international nuclear watchdog, there were 39 nnclear reactors under construction for the generation of electric power.

If all were completed this year – which they will not be – their collective output would be equal to 10 per cent of installed capacity of the world's 437 nnclear power plants currently operating in 30 countries.

These have a design capacity to generate 343,793MW of electric power; reactors under construction will add 32,594MW.

The aggregate figures disguise, however, a pattern of future power station development skewed towards the Far East. The prospect of a new nuclear station being built in North America or western Europe is remote.

Westinghouse, for one, sees little hope of new orders in the US or western Europe before 2005.

It believes that even France, western Europe's leading proponent of nuclear power, is at the limits of nuclear development with 76 per cent of electric power generated by nuclear plants.

However, Siemens, the German manufacturer, has developed with Framatome of France a European pressurised water reactor (EPR) which Electricité de France plans to use for the replacement of decommissioned plant.

But, underlining the straitened times in the indostry, Siemens has seen nuclear power's share of its business change from 70 per cent of equipment sales to 30 per cent of sales today.

In the west, the issue is one of maintenance and plant life extension. The biggest factor in the profitability of a plant is availahility. Redncing the time a power station is out of action has become a key concern of operators.

Westinghouse belives it can cut operating costs by 20 per cent by reducing "outages" for maintenance. Traditionally, outnges used to be planned 90 days ahead of shutdown; increasing the planning process to a year can shorten the period of outage.

So, too, can changes in work practices. Ten years ago, maintenance used to consist of separate packages of services for pumps and line, another for fuel, and so on. Now Westinghonse offers an integrated package with cross-skilled workers performing more than one maintenance task.

This has led to a 20 per cent cut in man days expended on an outage. In all, ontage times have been cut from 80 days to 30 days.

In terms of new power station orders, manufacturers are looking to eastern Europe, the former Soviet Union, and Asia as the market which will drive the industry forward.

Siemens has signed a memorandum of understanding to build a 640MW pressurised water reactor near St Petersberg. The company is also active in advising on maintenance and safety in Russia and eastern Europe.

The main opportunities are in China wbicb alone bas plans for 20 1,000MW plants. It currently has installed capacity of 2,300MW, mostly located at Daya Bay in Guangdong.

China's coastal regions remain the likely sites for future development. Most of its massive coal reserves are located in remote inland areas and is difficult to transport to the more economically vibrant coastal areas.

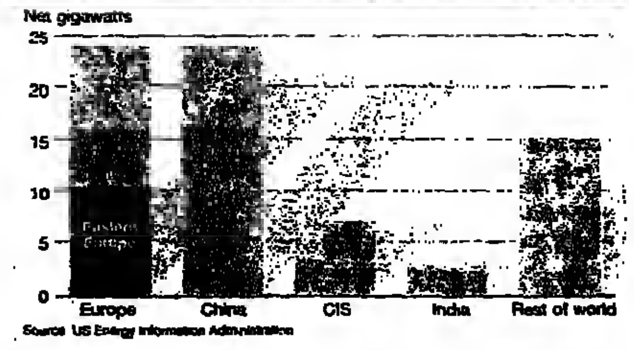
Taiwan is also pnshing ahead with nuclear power development. In May, Taiwan Power Company (Taipower), the state electric utility, awarded a cootract for two reactors and related equipment to General Electric of the US. The GE bid of $1.8bo beat competition from ABB's US sobsidiary, Combustion Engineering, and from Westinghouse of the US, which teamed up with Nuclear Electric, a subsidiary of British Energy of the UK.

Japan wants to build new plant but has put further development on hold in the wake of the Kobe earthquake and problems with the Monju fast breeder test reactor.

In south east Asia, Indonesia and Thailand are regarded as the most likely markets. Later this year, the Indonesian government is expected to issua bid specifications for a power station – possibly of 600MW – to be sited on the Muria peninsula.

Earlier this year, the Thai government announced plans to co-operate with Indian and US nuclear technologists in the development of a nuclear power industry.

Nuclear capacity additions 1993-2010




Source: US Energy Information Administration

■ **Aeroderivatives:** by Andrew Baxter

# Increasingly popular

## The industrial rationale for using aero-engines for land-based power generation is powerful

Some aero-engines never get off the ground. Instead, their efficiency and reliability are making them an increasingly popular option in land-based power generation for combined cycle outpnts up to about 120MW.

While the aviation market is obviously the most important for aero-engine producers, modified versions of their machines bave been sold to power producers since tbe 1950s, and to the oil and gas industry for both power generation and mechanical drive applications for nearly as long.

In the UK, Rolls-Royce – pioneer of the market for aeroderivative gas turbines – used to sell packages to the old Central Electricity Generating Board for use as occasional "peak-loppers," says Mr Bob Sunerton, managing director of Rolls-Royce Industrial & Marine Power.

Elsewbere, North Sea oil and gas producers, for example, appreciated the machines' light weight, quick start-ups and the supply of "a lot of power from a small package." The industrial rationale for using aero-engines for land-based power generation is powerful.

It cost General Electric of the US more than $1bn to develop its CF6-80C2 aircraft engine, an investment which would be very unlikely for an industrial machine, says Mrs Lorraine Bolsinger, general manager for marketing at GE Marine & Industrial Engines. GE M&I's biggest gas turbine, the 44MW LM6000, shares 90 per cent commonality with its sister aircraft engine, allowing M&I to benefit from economies of scale and proven reliability.

"Tbe big dollars bave already been spent, and you don't want to do a lot to modify the machines for land-based power generation," says Mrs Bolsioger. The main distinguishing characteristic is that aeroderivative gas turbines do not have fans. For power generation, they are supplied booked up to a generator, while for mechanical drive applications, the turbines drive a compressor.

The list of aeroderivative gas turbine producers is, by definition, much the same as that for aero-engines, although the priorities accorded to the market vary. In the power generation market, GE is the biggest manufacturer, followed by Rolls-Royce. Pratt & Whitney has a much smaller presence.

However, both the two main manufacturers emphasise that this is no cosy duopoly – and indeed there is no aeroderivative gas turbine market as such. Not only do GE and Rolls-Royce compete with each other for orders, they are also battling against producers of beavy-doty or "Frame"-type gas turbines which are oot aeroderivatives, even if some of their design features are borrowed from aero-engines.

This is particularly the case in the larger power output categories, says Mr Sunerton, while at the smaller end of the market there is also competition from diesel engines.

Just to add to the complexity, the heavy frame "rivals" include companies closely related or at least linked to the aeroderivative producers – other divisions of GE, or Westinghouse, with which Rolls-Royce has strong links.

There is even competition within the GE aeroderivative gas turbine business, because GE sells its gas turbines through a worldwide network of original equipment manufacturers (OEMs) which package the units. This can lead to one of GE's OEMs competing for an order with another, says Mr Mark Axford, vice-president of Stewart & Stevenson International. Its parent, Houston-based Stewart & Stevenson Services, is the biggest of GE's OEM packagers.

GE estimates that the market for gas turbines in the 10MW-100MW range is about 8 gigawatts (8,000MW) a year, or a third of the total gas turbine market. This includes oil and gas and industrial markets as well as power generation, and roughly 40 per cent of gas turbines sold in this segment were aeroderivatives. Rolls-Royce estimates that, for power generation alone, the aeroderivative gas turbine market was 1,900MW last year.

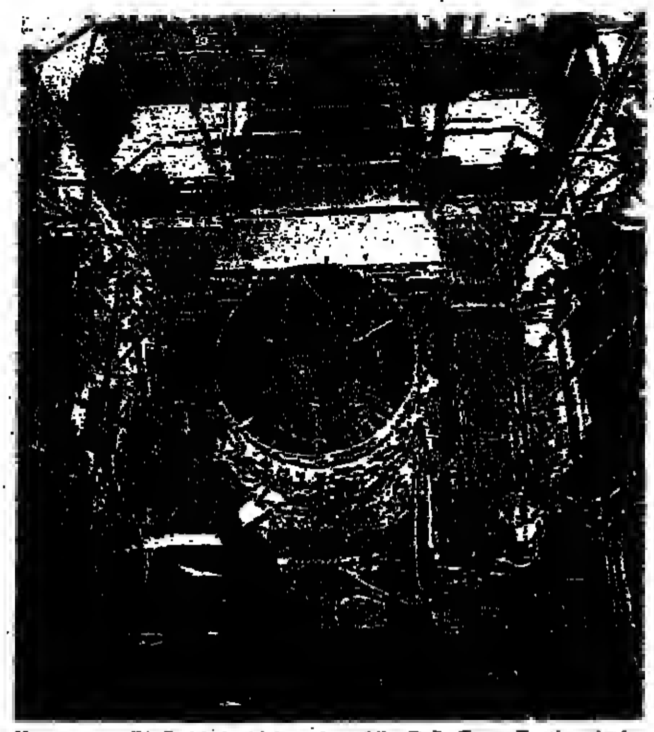
General Electric's LM6000 gas turbine on test with Stewart & Stevenson, the biggest of GE'e OEM packagers

Mr Sunerton points out that the aeroderivative prodncers have benefited from the same factors that have propelled the heavy frame gas turbine market in the past 15 years – the ready availability of gas, its cost, efficiency and environmental profile. But, he says, there are a number of factors that are helping aeroderivatives increase their sbare. First, the "technology push" is with aero-engines, and new materials and cooling technologies will help them stay ahead in the efficiency race.

Secondly, deregulation and changes of regulation in the power industry are making it harder to fund large capital projects. In independent power production, for example, it is easier and quicker to put together a 100MW project than one for 500MW, whether it is sited in the US or a developing country. "The lower the value of the project, the fewer bankers and lawyers are involved," says Mr Sunerton.

These factors, along with much-improved reliability after some problems in the 1970s, are pushing aeroderivative sales forward.

By combining two gas turbines with a steam turbine, the biggest power station project that the aeroderivative producers typically serve is about 120MW. As Mr Axford points out, there is no aeroderivative option at 200MW – "they don't make planes that big." But it is at the top of the aeroderivatives' power range that the competition with heavy frame rivals is fiercest.



Key weapon: the first industrial version of the Rolls-Royce Trent on test

The customer's choice of gas turbine type could depend on the type of project, says Mrs Bolsinger. "Aeroderivatives have high simple-cycle efficiency, but very low exhaust energy – they don't make a lot of steam," she says. "So if you need a lot of steam for cogeneration, they may be a disadvantage. But if efficiency is the most important criterion, the aeroderivatives may be a better fit."

The intended operating profile is another important criterion, sbe says. Aero-engines are designed to be switched on or off several times a day, so aeroderivatives can be "cycled" similarly with no impact on maintenance requirements. As for the cost, the initial price for an aeroderivative package can be more expensive than its heavy frame equivalent, says Mrs Bolsinger, because tbe machines' ruggedness depends more on modern materials technology than on sheer weight. Bot better fuel efficiency and lower operating costs can offset this over the life cycle of the plant, she says.

As part of the broader market for gas turbine power generation, the aeroderivative producers have had to weather the same pricing pressures as those faced by the heavy frame brigade. They have also witnessed a similar change in their market profile as the big opportunities shift away from North America towards developing countries.

Mrs Bolsinger says the US market for aeroderivatives is "indefinitely stalled" because of uncertainty over electricity regulation and the future structure of electricity distribution. The result, she says, is a change in customer profiles. Traditionally, only 30 per cent of GE M&I's power generation customers were international. Now, only 10 per cent are domestic.

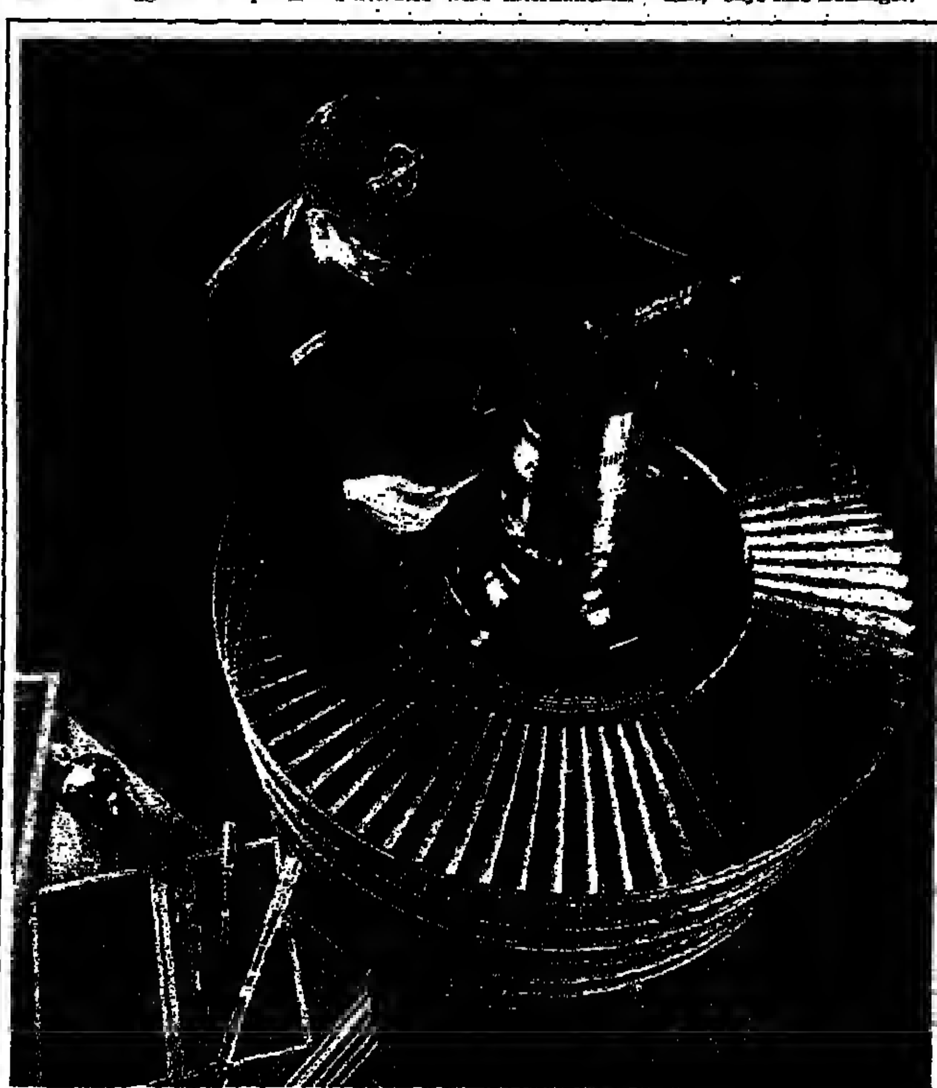
The best growth prospects, she says, are in Asia and Latin America, where the short delivery times for aeroderivatives – six to nine months on average – are an attraction for power-hungry customers. Last year alone, new power generation markets for GE M&I opened in countries including China, Tanzania and Ecuador.

At Rolls-Royce, Mr Sunerton says south-east Asia is probably the fastest-growing area for aeroderivatives because of its strong infrastructure growth and rising per capita incomes. But he also sees good growth prospects in both western and eastern Europe. This global pattern is expected to continue for a few years at least, although Mr Sunerton believes that the US market, while currently stagnant, will eventually regain its former importance. He also foresees slightly stronger growth prospects for aeroderivatives in power generation markets than in oil and gas or marine sectors.

Technology developments will, inevitably, follow those in the original nero-engines, although they tend to lag a few years until reliability is proven. Both GE and Rolls-Royce have managed big gains in efficiency with their largest machines, respectively the LM6000 and the industrial version of the Trent – which enters service shortly and which Mr Sunerton sees as o key weapon to belp the UK company overbaul GE's lead in power generation. Both have also made progress on reducing emissions with dry low-NOx technology.

With simple cycle efficiency at 42-43 per cent, further gains may be more modest, and the next big event in the industry could be an industrial versioo of the new 100,000lb-thrust GE90 engine, now in service on Boeing 777s. "We're looking right now at how to develop that," says Mrs Bolsinger.





Beefing up international sales: Stewart & Stevenson build power station packages around GE gas turbines

PROFILE Stewart & Stevenson

# International sales soar

The growing international popularity of aeroderivative gas turbines and the slowdown in the US market is illustrated by recent trends at Stewart & Stevenson Services, one of a dozen companies worldwide which build power station packages around General Electric gas turbines.

Last year, more than two centuries after Captain Cook, the company "discovered" Australia, selling five of GE'e LM6000 turbines for power generation at several mining sites. It also made its first foray into Tanzania, as partner in a joint venture that brought two LM6000s on line some 160 days from the signing of the contract.

The slowdown in the US market has been caused by deregulation of the electricity business. "We saw it enough in advance to beef up international sales," says Mr Mark Axford, vice-president of Stewart & Stevenson International.

International sales have grown dramatically over the past year, says Mr Axford, and 75 per cent of new power plant packages are now destined for foreign job sites. Not all are necessarily sold outside the US, though – a recent deal to supply three units for an Enron project in China, for example, was clinched in Houston.

Stewart & Stevenson, founded in 1902, has been an authorised original equipment mannfacturer (OEM) of LM gas turbines since 1978. Since then, it has sold more than 200 LM-series packages worldwide, and a total of 750 aeroderivative gas turbine packages.

Sales in its gas turbine business, which covers power generation and mechanical drive markets, operations and maintenance, and technical services, have soared from $44m in 1986 to $538m last year, about 44 per cent of the company's total $1.2bn sales last year. About 90 per cent of the gas turbine business is GE-related.

> Sales have risen from $44m in 1986 to $538m last year

Mr Axford believes the OEM concept has proved very successful, with GE concentrating on producing the turbines and the OEMs producing and selling power station packages in many different, culturally diverse markets. "We know exactly what our customers in North America want," says Mr Axford – a package that is assembled and factory tested at full power before shipment.

This knowledge is now being used overseas.

The company's PowerLease programme, developed originally for the US market, offers customers a turnkey power facility, financing, operations and maintenance. The concept is designed to appeal to countries which are deregulating their electricity market and lonking for flexible, short-term contracts.

Stewart & Stevenson builds its power station packages at factories in Houston and at Rheden in the Netherlands, but in the long-term it could begin manufacturing in Asia too, says Mr Axford, to better serve customers in the region.

This year has seen a slow start for the group – weak gas turbine equipment sales contributed to a fall in first-quarter net profits to $6.7m from $16m a year earlier. The company said it was unable to finalise several multi-unit gas turbine projects that it had expected to close in the first quarter, but expects to book a significant amount of gas turbine business during the rest of the year.

**Andrew Baxter**

PROFILE Westinghouse

# A split is almost certain

Mr Fran Harvey, a senior executive of Westinghouse Electric makes no attempt to disguise the gap between the US group's traditional industrial businesses and its newly-expanded media interests.

"There is no fit. These are really two distinct businesses," says Mr Harvey who is soon to take over as president and chief executive officer of the company's industries and technology group – the traditional industrial businesses, including power generation and nuclear engineering.

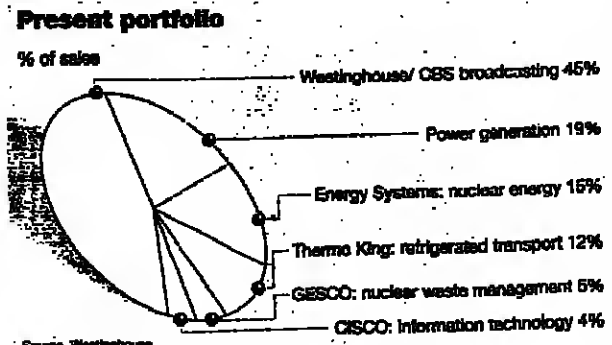
The mismatch between the two halves of Westinghouse has prompted the company to consider splitting itself into separate broadcasting and industrial businesses, as Mr Michael Jordan, chief executive announced earlier this month.

While Westinghouse has given itself until the end of the year to reach a final decision, analysts believe that a split is almost certain. It would be the culmination of the changes Mr Jordan has made since he started his effort to revitalise Westinghouse in 1993.

Mr Jordan first concentrated upon making the old-established industrial businesses more productive, reducing debts and cutting costs, including laying off 12,000 staff, a fifth of the total.

Then last year he dramatically expanded Westinghouse's broadcasting business through the $5.4bn acquisition in November of CBS, the television and radio network. The shift in the group's centre of gravity away from manufacturing was extended with the the $4.1bn sale earlier this year of the defence equipment and office furniture divisions. Only last week, Mr Jordan went one step further with the $3.9bn acquisition of Infinity Broadcasting, second-largest radio network in the US.

Present portfolio



Source: Westinghouse

Dividing the group into two would help investors value each half more accurately and – Westinghouse believes – result in a bigger overall stock market value for the businesses. In particular, company executives think the broadcasting operations grouped around CBS would secure a better valuation if they were not encumbered by the industrial companies, with their pedestrian financial performance.

However, if the glamorous broadcasting interests are spun off, the future of the original core Westinghouse industrial operations seems less than clear. Many financial and industrial analysts believe the obvious conclusion will be the break-up and sale of the industrial operations – including power engineering – to separate buyers.

But Mr Harvey, who earlier this year turned down an offer to leave Westinghouse and join Northrop Grumman, the defence division's new owner, says disposals are not on his agenda. "I didn't come back (to Westinghouse) to break it up and sell it. My mind is set on profitable growth."

However, he adds that disposals are not completely ruled out. "You can never say never," he says.

Mr Randy Zwirn, the executive vice-president in charge of power systems, uses almost the same words. "We are not trying to sell our business. But you can never say never."

Such qualified denials are unlikely to quell speculation about Westinghouse's future role in manufacturing, including power engineering.

However, whether or not the business is eventually put up for sale, Westinghouse remains firmly committed to its development. Mr Zwirn says he is investing about $100m a year and is spending an extra $100m on a key joint venture in China – with the Shanghai Electric Company, China's largest power equipment maker. "I have access to all the capital I need," he says.

Rival manufacturers concede that Westinghouse's power systems business is now in better competitive shape than it has been for more than a decade. It is overcoming the effect of years of neglect before 1990, when it failed to keep pace with technological change, notably the development of gas-fired turbines, which soared in popularity at the end of the 1980s. The company's current resurgence dates back to 1989, when a team of executives from the highly-successful nuclear business – which


Core operation: nuclear fuel fabricated by Westinghouse and its licencees

pioneered the commercialisation of the pressurised water reactor – moved to the (non-nuclear) power generation division.

They reorganised the factories to cut costs and streamline production. They secured a commercial alliance with Rolls-Royce of the UK, which brought with it crucial gas turbine technology. They revived long-standing ties with Mitsubishi Heavy Industries of Japan, and Fiat, the Italian car maker which also has interests in industrial equipment.

Westinghouse also created teams for managing and financing turnkey projects. As Mr Don White, the manufacturing director and a veteran of the transformation of the power systems business, says: "Before, we didn't even have a strategy. Now we know where we are going."

Sales in power generation rose from about $400m in 1988 to $1.77bn last year as Westinghouse made inroads in the market, capitalising on its strong brand image. But amid ever-increasing competition, Westinghouse struggled to make adequate profits.

Last year, power systems made an operating loss of $207m, down from a $165m profit in 1994. The results were depressed by $305m in charges relating to the settlement of legal disputes, dating back several years. One concerned the Philippines and the others the supply of allegedly faulty steam generators. However, even excluding these matters, the (non-nuclear) power business lost $16m.

The division's profits were made entirely by the nuclear operations (called energy systems), which made $114m, unchanged from 1994 and earned largely from service and renovation.

The pressure on margins has forced further cost-cutting in the energy systems division. In non-nuclear operations, the company is closing its factory in Pensacola, Florida, with the loss of 650 jobs, to concentrate production at three other sites – Hamilton in Ontario, Charlotte in North Carolina, and Fort Payne, also in North Carolina. The small Fort Payne plant, which employs 250, could also lose work to the Charlotte site.

Mr Zwirn says that the rationalisation is not bringing any reduction in output, only in cost.

At Charlotte, the company is investing in new space and equipment to absorb the extra production transferred from Pensacola. Mr White says: "We may be small but we are second to no-one in manufacturing."

Mr Zwirn denies that Westinghouse's modest size in comparison to its top rivals – General Electric of the US, and Europe's ABB and Siemens – is a disadvantage. He believes that turnover in power systems, which totalled $3bn last year, including $$1.37bn in nuclear and $1.77bn in non-nuclear business, is sufficient to give Westinghouse an adequate presence in international markets.

He also believes strongly in the value of alliances. As well as its new joint venture in China and its agreement with Rolls-Royce, Westinghouse has technology-sharing and marketing agreements with Mitsubishi Heavy industries in Japan, in steam turbines, and a three-way partnership with MHI and Fiat of Italy in gas turbines. Mr Zwirn says: "The massive cost of new projects means we all must co-operate."

Perhaps making a virtue out of a necessity, he adds: "An important element of our global strategy is not necessarily to be a dominant partner."

PROFILE Snell Hydromotor

# River power without dams

Building dams is a controversial business. Only last week, a Malaysian high court ruled that a government decision to build the $5.5bn Bakun hydro-electric scheme in the jungles of Borneo had violated the law, after finding irregularities in how officials assessed its environmental impact.

Elsewhere, some countries are refusing in dam any more rivers because of concerns about the effects on local communities and ecosystems.

Recently, scientists have even questioned whether conventional hydro-electric power generation can be considered to be truly emission-free in cases where trees and vegetation were inadequately cleared from the reservoir area. Submerged in the reservoir water, they decay and produce greenhouse gases, studies have shown.

With many of the best sites for dams already taken, a big opportunity exists for generating power from rivers without having in build dams. This, at least, is what the UK inventors of the Snell Hydromotor believe. The machine does just that, and can also be used to generate power from tides.

The Hydromotor was designed by Mr Michael Snell and his father Mr Leonard Snell, the controlling shareholders in Snell (Hydro Design) Consultancy. Michael Snell is a civil engineer and a former director of technical services at Stroud District Council; his father was chief designer at Rolls-Royce and was responsible for designing the engines for Concorde.

The machine was developed after the council asked Michael Snell whether he could devise a way to generate electricity from a stream and mill next to its new offices. The problem with conventional turbines used in hydro-electric projects was that the "head" – the difference between the water level upstream and immediately downstream of the installation – was too low.

"Conventional turbines will not function well, or won't work at all, if the head is less than two metres," says Mr Geoffrey Linford, a civil engineer who is trying to find a commercial backer for the Snells. "The Hydromotor works down to a zero head."

At the heart of the machine are two four-bladed rotors mounted on shafts that are connected together by phasing gears. These ensure that the rotors maintain their designed angular position relative to each other. In generating mode, the flow of incoming water is divided by a deflector and directed to impinge on the outer parts of the rotor blades, converting the energy from the water flow into rotational power. The machine can work as a pump if the process is reversed.

The hydromotor would fit very neatly inin low-head, high volume cascades, such as smaller drops on rivers, says Mr Linford. It could be used, for example, on the two-metre cascades built every two miles or so into irrigation channels on Peru's coastal plain, producing a significant amount of power even if each individual installation was small.

A prototype machine has been under test since last year by Professor Brian Brinkworth and his team at the University of Wales in Cardiff, and detailed results are due soon. Mr Linford says that, as the research continues, it is becoming increasingly clear that the machine could be used in a wide range of applications.

One application could be to replace the sluice gate, or as a combined sluice gate-turbine, in river barrage schemes. Currently, the energy from the flow of the river goes to waste in many of these schemes.

Mr Linford says the Hydromotor uses simple technology – the seals and gears are the most sophisticated components – and as such it "lends itself very much to power generation in developing countries" where it could be manufactured easily.

For the same reasons, however, it has not gone down well with UK producers of high value-added turbines. As Mr Linford observes, it is the antithesis of the products they make.

Michael Snell has funded development so far and patent costs – the machine is patent protected in the US and Australia, and patents are pending for Europe and Canada. Funding is needed for the next stage – to build a full-scale machine at a demonstration site. That would allow a full technical assessment to be made, along with calculations of production costs and the costs per kilowatt of power.

Negotiations are under way with a UK company interested in bidding for the Hydromotor and Mr Linford is looking, ideally, for "an entrepreneur with some vision" to take the project forward.

Andrew Baxter



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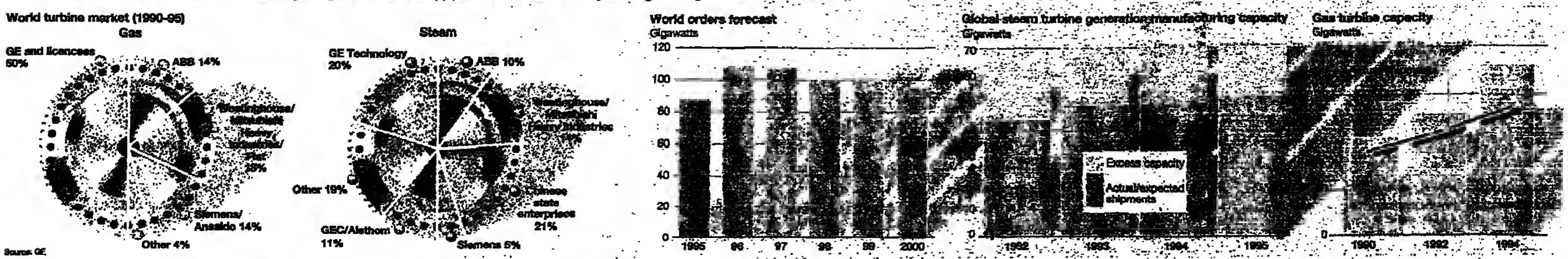
## 8 POWER GENERATION EQUIPMENT

### MARKET OUTLOOK

**With flat market forecasts and excess capacity in the industry, producers must compete vigorously for market share**




# Squeeze on profit margins

Continued from Page 1

been placed, says Siemens.

In nnclear energy, the prospects are even bleaker. The last three plants to be built in western Europe and north America have recently come into production, leaving empty order books. The only realistic prospect of selling a new nuclear power station is in east Asia, where Japan, South Korea, and Taiwan all have construction plans.

In the developing world, there is no shortage of electricity demand, notably in China, India and Indonesia. Projections of developing countries' electricity requirements suggest the world's installed power plant might need to grow 60 per cent by the year 2010, which would bring 1,750,000MW of orders to manufacturers – worth perhaps $1,500bn-$2,000bn. Detailed proposals for many of these projects are already available. However, the money is not. GE estimates that it takes up to seven years to bring to fruition a private sector scheme in the developing world, by which time the technical, commercial and financial requirements could all have changed.

In India, for example, Enron, the US energy group, and its partners, including GE, are still waiting for a final decision on the fate of the $2.5bn Dhabol project for a gas-fired plant for the state of Maharashtra.

Westinghouse combined-cycle plant at Teeside, UK. Westinghouse closed its US factory at Pensacola this year

Although the acheme was one of eight private sector projects earmarked for rapid approval by Delhi three years ago, it has been dogged by political delays. First the government in Maharashtra state changed and the project had to be renegotiated. Then, this year's general elections threw the central government into turmoil. Even though the scheme is likely to get the go-ahead later this year, the delays have cost Enron and its partners dearly.

However, other, more developed countries are increasingly able to organise and finance even very large schemes. For example, Malaysia earlier this month awarded a $5bn contract to an ABB-led consortium to build the controversial Bakun hydro-electric scheme in the rain forest of Sarawak. It will be funded entirely by Malaysian finance.

China dwarfs other developing markets, accounting for about half Asia's expected demand for power generation plant in the next 10 years, and about a quarter of the world's. It is pressing ahead with the world's largest power scheme – the $28bn Three Gorges hydro-electric project, which is attracting enormous interest from equipment suppliers despite concerns about the environmental impact that have led the US Export-Import Bank to refuse its support.

The scale of the Chinese market has encouraged every big manufacturer to bid for business, driving down prices. While companies report some caution in price-cutting this year, this may still be wishful thinking. Also, Chinese enterprises have imposed strict conditions, including obligations to transfer technology to Chinese factories. For example, GEC Alsthom is transferring know-how for steam turbines under the terms of a $2bn contract for expanding the Daya Bay nuclear plant it built near Hong Kong.

The pressure to compete in global markets is changing the industry. The once-cosy ties between power plant suppliers and local state-owned utilities are being replaced by tough bidding wars between international rivals. The integrated companies which dominate the industry believe further consolidation could follow the last phase in the late 1980s, when GEC of the UK and Alcatel Alsthom of France pooled their power and transport businesses in GEC-Alsthom and Asea of Sweden and Switzerland's Brown Boveri merged.

Today, industry speculation centres upon the power interests of Westinghouse, which last year dramatically shifted its centre of gravity from manufacturing to media with the $5.4bn takeover of CBS, the broadcasting network.

Earlier this month, it said it was considering splitting the company between media and manufacturing. Westinghouse executives argue that such a split, recreating a tightly-focused manufacturing group, will strengthen rather than weaken the commitment to making power equipment. But some rival companies believe that a demerger could be a prelude to disposals.

Acquisitions and alliances are developing space as companies seek to share development costs, to secure access to markets and to build low-cost manufacturing centres in developing conntries. ABB is expanding a manufacturing network in eastern Europe and the former Soviet Union which employs more than 30,000 of the group's 211,000 staff and reaches from Croatia to Kazakhstan. GE is consolidating ties with Nuovo Pignone, the Italian diversified engineering group, where it bought control in 1994. And last year Westinghouse won a hotly-contested anction for a joint venture with Shanghai Electric Corporation, China's biggest power plant manufacturer.

The integrated groups argue that economies of scale give them an advantage. The costs of developing new technology are so big that even the largest companies suffer if things go wrong. For example, GE is spending more than $100m correcting faults which developed in early units of its new F-series gas turbine.

However, fast-moving smaller companies are convinced they also have a future. They say that building power stations has always been a business for consortia – even ABB, perhaps the most highly integrated manufacturer, does not usually do its own earth-moving and civil engineering works. They add that some customers prefer to buy turbines from one source and another important piece of plant – typically boilers in nuclear and coal-fired stations – from a second supplier. Babcock & Wilcox, the boiler manufacturing company belonging to McDermott, the diversified US group, retains a leading market share in boilers. Mr Robert Mady, vice-president for international sales and service, says: "Big companies are less flexible and less agile."

Nicbes, often substantial ones, provide good opportunities for smaller groups. For example, Rolls-Royce, the UK engine and turbine maker, has had considerable success in adapting aero-engines for use as medium-sized gas turbines for power plants. It has transferred the technology to Westinghouse in return for a marketing agreement for the industrial Trent, the power-generation version of its latest gas-turbine aero-engine.

Meanwhile, companies are forging closer ties with their customers, especially with the independent power producers which Siemens estimates account for about 30 per cent of world orders. To get business, manufacturers are increasingly obliged to invest in projects and to help secure funds from other investors for both equity and loans. For example, GE Capital, the GE subsidiary, is as big and experienced in project finance as many banks.

Plant manufacturers are also investing more in their service businesses. They hope to recoup some of the money lost on low-margin plant sales with a stream of higher-margin revenues from after-sales activities. They are trying to exploit computer technologies which will enable them to monitor scores of power stations from a single test centre, saving costs and raising efficiency.

The skills required in the industry have never beeo greater: competition in technology, marketing, finance, service and international alliance-building, is putting enormous pressures on power equipment makers in the 1990s.

So far, most have reacted positively, improving their performance to levels few would have thought possible 10 years ago. But some groups are better placed than others for global competition. The next few years could see big differences emerging in financial performance as the winners capitalise on their advantages at the expense of the losers.

Global approach: A craftsman in Mannheim, Germany, aligns burners in a combustion frame. Components for ABB's GT24 gas turbine were manufactured in Mannheim and in Birr, Switzerland, then assembled in Richmond, Virginia

# UK ENGINEERING

## In two minds about long-term prospects

**The industry has been written off in the past, but the figures show its economic impact remains strong. Peter Marsh writes**

Britain's engineering industry cannot make up its mind whether the glass is half full or half empty. Many companies have made an impressive recovery from the early 1990s recession, but worries remain about the sector's longer-term viability.

The straws in the wind are distinctly mixed. On the plus side there is a solid list of companies, many of them non-UK owned, announcing expansion plans or solid financial results.

According to the industry optimists, a competitively priced exchange rate, relatively low wages, a "minimalist" regime of labour market regulations and few inflationary pressures are all factors making Britain a good place to site and run modern engineering plants. The UK appears to have taken on board better than some of its European competitors the "mass customisation" techniques needed to make an increasing range of complicated products simply and cheaply to meet different customers' demands.

"The potential for increasing volumes in UK manufacturing is as good as I've ever known it," says Mr John Hudson, chief executive of Wagon Industrial, a diversified UK engineering company selling a range of components to the automotive, retailing and distribution industries.

The stock market indices (see Page IV) appear to support this point of view. Since September 1992, the average share price of quoted UK engineering companies has soared 120 per cent, compared with the 70 per cent rise in the FT-SE all-share index over the same period. Although engineering in the UK is used to being written off as a sector in near-terminal decline, its overall economic impact is substantial.

According to the broadest definitions of engineering, the sector has a gross annual output (including sales to other parts of engineering) of some £150bn and employs nearly 2m people, roughly half the UK's manufacturing workforce.

But if there are some bullish indicators for the sector, recent economic data have painted a gloomier picture. As manufacturing growth has slowed in the past six months, engineering (which according to most definitions accounts for about 40 per cent of manufacturing in net output terms) has suffered too. The biggest problem is weaker export markets, particularly continental Europe.

In the three months to the end of April, output in mechanical and electrical engineering, comprising the core of the engineering industries, rose just 0.2 per cent in seasonally adjusted terms compared with the previous three months, according to the UK Office for National Statistics. This was well below the 2.7 per cent year-on-year growth rate recorded for 1995.

Concern has been sufficiently strong for the Engineering Employers' Federation, the main trade body for the sector, to warn earlier this year about the risks of the engineering industry sliding into another recession. The latest soundings, however, are more encouraging and indicate that the industry stabilised in the second quarter.

Even in parts of engineering where output gains in the past year or so have been impressive, frissons of anxiety are evident. In machine tools, for instance, where production has grown strongly since 1992 and where output this year is forecast to show a 20 per cent rise on last year, some executives are beginning to worry about what is in store for the sector when the next cyclical downturn hits home.

Skills shortages and training remain a problem, with many engineering executives saying the inability to attract the right calibre people, not necessarily those with high technical skills but also covering school leavers with good standards in writing and mathematics, is a big factor holding back expansion. "While so many factors are in Britain's favour [in engineering related industries] training and education remain our Achilles' heel," says a senior UK government official involved with industrial investment.

The extent of conflicting views about the outlook creates difficulties in judging the next few years. "A lot of companies are expressing optimism, but much of this is at odds with the official macroeconomic data," says Mr John Deon, an industry analyst with Albert E. Sharp, the Birmingham stockbrokers specialising in manufacturing stocks.

Somewhat more sanguine is Mr Robin Leggett, publications manager of Marketing Strategies for Industry, a Cheshire-based consultancy concentrating on engineering sectors. "There's not a huge amount of confidence but most factors are pointing towards a pretty robust recovery," says Mr Leggett. "One of the problems is that there are too many doom and gloom merchants talking down the prospects for the industry."

A spate of recent announcements generally support the idea that UK engineering has a reasonably bright future:

● the big guns of the publicly quoted UK engineering companies – including Siebe, TI, T&N and GKN – have all recently reported healthy financial results for 1995 and have said little to dampen expectations for this year and next. Combined pre-tax profits for these four companies in 1995, which gain a large chunk of their sales outside the UK, came to £1.1bn, 31 per cent up on the previous year, on total sales 14 per cent up at of £9.7bn;

● J.C.Bamford Excavators, one of Britain's biggest and most profitable privately owned engineering companies, has recently announced a four-year £132m investment programme in the UK up to 1998, well up on the £45m it spent in the the previous four years;

● an alliance between Fiat, the Italian automotive company, and Cummins, the US maker of diesel engines, is to spend about £70m setting up a new centre in the UK for worldwide engine development, geared particularly to new models of trucks, tractors and buses to go on sale early next century;

● Sandvik, the Swedish producer of speciality steels and tooling which is one of Europe's biggest engineering companies, has unveiled a tripling of its UK investment programme in which it is is spending nearly £40m over three years increasing output at its eight plants mainly in the Midlands region;

● and Toyota, Nissan and Honda, the three Japanese car companies with UK manufacturing plants, are continuing their programme of "tutoring" UK-based component companies in up-to-date production methodologies in schemes which have had a big impact on improving the overall commercial performance of the automotive parts sector.

Added to this, the broad run of economic data over the past three years shows that the engineering industry has outperformed other sectors in manufacturing since the depth of the recession.

With some 40 per cent of its output exported, the industry was given a particular boost by sterling's enforced ejection from the European exchange rate mechanism nearly four years ago, an event which led to a large devaluation in the pound against the D-Mark and has helped increase the industry's competitiveness.

Output volumes in engineering and related industries between 1992 and 1995 expanded 11.1 per cent, compared with 7.9 per cent for the whole of manufacturing, according to the UK's statistics office.

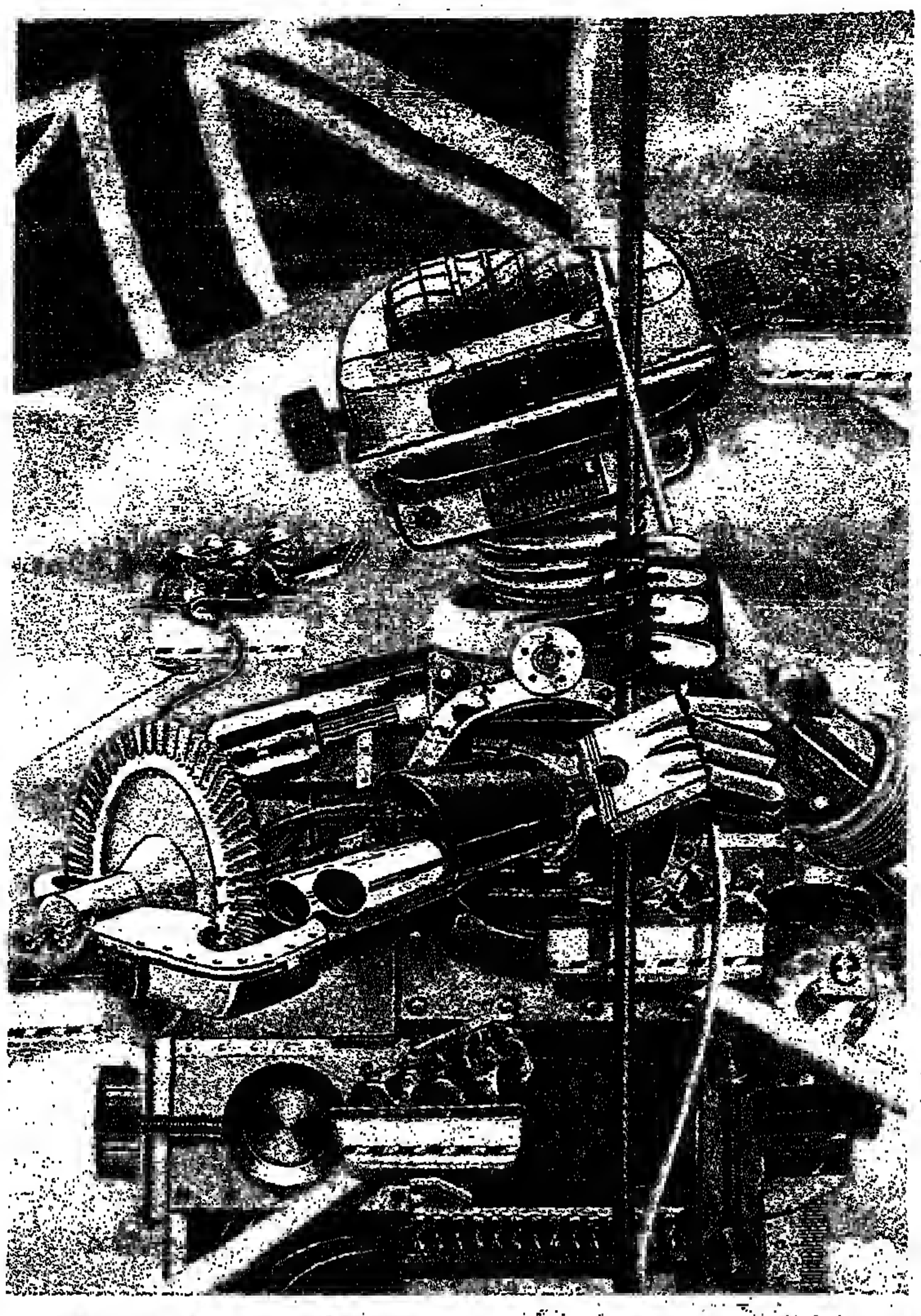
Over the same period, output per person in engineering rose 20.8 per cent, compared with 10.9 per cent for all manufacturing, while engineering capital investment increased 40.3 per cent, as against a rise of 22 per cent in related spending in manufacturing.

According to Mr Brian Small, managing director of Ingersoll Engineers, a UK-based consultancy specialising in manufacturing, one of the keys to engineering's better performance relates to new management techniques based around organising teams of workers into small groups (or "cells") and devolving responsibilities away from managers and towards the factory floor.

"To satisfy customers nowadays with their increasingly wide range of demands, you've got to segment markets as much as possible. This way of looking at the world fits in with cell-based manufacturing methods. In bringing together these two ideas Britain is ahead of a lot of other countries," he says.

The point is reinforced by Mr Les James, marketing director at Servomex, a small East Sussex-based maker of gas-measuring equipment and an expert on manufacturing technology. "In the late 1980s probably only about 20 per cent of companies in manufacturing in the UK were attempting world-class manufacturing techniques. Now the figure has gone up to 35-40 per cent."

But according to Mr Geoffrey Robinson, non executive chairman and founder of TransTec, a Midlands-based specialist engineering company and who is also a Labour MP, problems remain. "With the big contraction in industry in the 1980s, Britain lacks a lot of the technological intelligence and knowledge needed for a strong economy," he says. Others point to the need to expand research and development and investment in the industry to help lay the foundations for the next century.



■ **Car components:** by John Griffiths

# Merging in unsettled times

**Like the car industry itself, this sector has no choice but to globalise**

This is a time of great upheaval in the UK motor components industry.

*In no case has this been* made more apparent than by the planned merger of Lucas Industries, the largest and probably best-known of the UK motor components group, with Varity Corporation, the US-headquartered diesel engines to braking systems group.

The $4.9bn merger will create one of the world's top ten motor components groups ranked by turnover and the second largest in one of the areas where the partners envisage some of the strongest synergies – braking and traction control systems.

There is an outside chance that the merger, scheduled to be completed by August, might not happen; and that Lucas might fall prey to a predator lurking as yet undeclared in the global motor components undergrowth.

*One such would-be predator,* the UK's BBA engineering group, has already sought to pounce – but has been driven back by its own shareholders.

Like most industry analysts, they failed to see the logic of BBA seeking to acquire a much larger, mainly automotive group which not only was likely to have proved very difficult to digest but with which BBA itself had few obvious synergies.

It was even more puzzling given that BBA has spent part of the past decade reducing its once-strong dependence on the motor components business by disengaging itself from a number of other motor component activities.

But if the detailed logic of BBA's own snap at Lucas was difficult to grasp, the underlying pressures which prompted it are not.

They are, in fact, the same ones which have led Lucas and Varity to seek each other out *and which will, doubtless, see* other mergers and rationalisations in the not-too-distant future.

Like the car industry itself, the motor components sector is globalising. It has no choice. Any components manufacturer which wishes to remain a direct, first-tier supplier to the leading car companies must be prepared to follow them into every market in which they wish to manufacture or otherwise penetrate.

That means a commitment by the supplier to its own manufacturing plants, joint ventures or efficient component supply chains in China, the Asean countries, Latin America, Eastern Europe or any other area of the developing world on which car makers must, in future, rely for growth as the markets of Europe, North America and Japan move ever closer to saturation.

But it is not only much increased geographical bur*dens that the car industry is* placing on its suppliers. The car makers see themselves increasingly as assemblers of outsourced component systems rather than integrated manufacturers.

And they want their first-tier suppliers not only to manufacture ever more complex component modules and sub-systems, but to design and develop them as well.

Several factors of vital concern to the components sector are implicit in this scenario.

One is that suppliers capable of meeting these demands must be large and possess a great depth of technological resources. Another is that no supplier, almost irrespective of size, can hope to be a full-spectrum supplier of almost any type of system or module.

Thus Lucas and Varity will concentrate on core competencies in specific areas such as diesel engines, fuel injection and braking systems, as will *other potential long term first-*tier suppliers like GKN, with its specialised expertise in constant velocity joints and related drivetrain systems.

The logical result of such developments, as the chief executive of Lucas Industries, Mr George Simpson, points out, is that "in e decade or so the industry will be dominated by 20 or so very large suppliers with a fully global capability."

In its own attempt to be part of the global matrix, according to Mr Simpson, Lucas has been allocating two-thirds of future investment to support the build-up of a fully global capability.

Some UK companies do not quite fit this tightly-defined scenario – not least Unipart,

| **Spending in the UK on components, 1994** | |
|---|---|
| Rover | £2.8bn |
| Ford (UK) | £2.6bn |
| GM | £1.2bn* |
| Nissan | £700m |
| Jaguar | £550m |
| Honda | £500m |
| Ford Europe | £400m |
| Toyota | £400m |
| VW | £400m |
| Fiat | £200m |
| BMW | £160m |
| Renault | £150m |
| Mercedes | £120m |
| Volvo | £120m |
| PSA (Peugeot/ Citroën) | £70m |
| TOTAL | £10bn+ |

*£1.7bn (1997) Source: Centre for Automotive Industry Research, Cardiff Business School

once the parts and accessories arm of British Leyland and now epproaching the £1bn turnover level as a parts maker and distributor after nine years of independence.

The supplier of a gradually-growing range of components to both Toyota, Rover and Rover's former partner Honda, it is now classed by both as competitive with their counterpart suppliers inside Japan.

In addition, it was the only UK components group to match Japanese quality – though not productivity – in Arthur Andersen/Cardiff Business School/ Cambridge University benchmarking studies of the world components industry.

Unipart's evolvement as a *viable regional participant* (but with potentially global ambitions) is a rarity. But the globalisation process does not mean that the many smaller UK companies involved in the motor components sector are necessarily doomed.

Some are indeed disappearing – exposed by the much more rigorous quality standards of today's industry and their lack of the incentive and management quality to bring their operations up to scratch. And it has been a persistent refrain of the Society of Motor Manufacturers and Traders, the Department of Trade and Industry and individual vehicle makers that upgrading the quality and productivity standards of the smaller companies remains one of the greatest challenges facing the UK industry.

However, many have adapted, and are falling naturally into the category of second- or third-tier suppliers, as their customers become not car makers themselves but larger components groups that produce their ever more complex *modules and sub-systems.*

By any standards, the UK motor vehicle and components sector is a big industry. *According to DTI statistics, it* employs e total of 850,000 people, generates more than 10 per cent of UK exports and accounts for 5 per cent of GNP. The components sector itself comprises around 2,500 companies.

*UK components producers* can also count themselves more fortunate in many respects than some of their *counterparts* elsewhere in Europe.

The presence of Japanese car plants in the UK, which between them have several hundred suppliers, has been a significant factor in increasing UK component quality. They are also largely responsible for e sharply rising trend in UK vehicle production, already back over the 1.5m mark for the first time in 20 years – after dwindling to 880,000 in the early 1980s – and now widely expected to top the 2m units a year level by the end of the decade.

By 2001, the UK-based industry will have the capacity to produce 2.5m cars a year, forecasts Professor Garel Rhys, motor industry economist at Cardiff Business School. "It will compete with the French to be Europe's second largest industry behind Germany."

Further good news for component suppliers is that European vehicle-makers which once shunned UK-produced *components* are importing more from the UK. They are attracted not just by low labour costs and the relative weakness of sterling but by the quality and productivity lessons they also belie UK suppliers hava learned from their Japanese associations. Together Fiat, BMW, Renault, Mercedes and Volvo spent more than £1.2bn with UK-*based suppliers* for their own production lines last year – more than double their annual spending at the end of the 1980s.

**BMW is seeking to increase spending on UK-produced components**

BMW, which bought Rover two years ago, is also seeking to increase spending on UK-produced components, thus further lifting car makers' total UK component spending well abova Cardiff Business School's estimates of over £10bn for 1994. Indeed, the combined turnover of the top 100 UK suppliers alone is now in excess of £20bn, with much of their business in exports.

With Ford, Rover and Vauxhall also collectively intending to invest a further £6bn in their UK operations over the next five years, the outlook for their suppliers has rarely looked so good.

■ **Outsourcing:** by Tim Burt

# An inexorable trend

Allen Yurko: wants to develop 'standard industry building blocks'

**Increasing costs and customer demands are making in-house production harder**

When General Motors announced last year that it planned to buy brakes from Robert Bosch, it prompted the worst stoppage in the US motor industry since the 1970s.

The United Auto Workers *Union used the 17-day strike to* complain that jobs were being threatened and technological leadership put at risk by the *increased shift towards outside* suppliers.

For industry executives, however, the industrial action marked a vain rearguard attempt to fight the inexorable move away from internal component production to cheaper units manufactured by specialist engineering groups.

*Over the past 20 years, many* engineering equipment manufacturers have been founded and grown rapidly as feeder companies for carmakers, white-goods manufacturers, aircraft companies and electrical groups.

The rationale for GM and others has been that as products become more complex and as customers demand an increasing level of equipment, they can no longer afford to develop and build such products in-house.

Bosch, for example, is able to produce anti-lock braking systems equipment in the US at a wage rate of about $20 an hour, compared with $44 an hour from GM's internal brake business.

In the event, GM won the right to source parts from Bosch while promising job security at its own plants.

The stoppage, moreover, showed just how many components the US motor manufacturer already sources from outside. Pilkington, the UK glass maker, said it had been hurt by the strike which forced it temporarily to shut down some of its plants. Lucas Industries, which supplies GM with electrical components, laid off some US employees and BSG International, which supplies wing mirrors, said it lost about $1m of sales.

Such companies say car makers have turned to outsourcing more than any other original equipment manufacturers (OEMs). Of the components used by most big international motor manufacturers, products such as brakes, brakepads, electronics, pistons, piston rings, fuel injection systems, mirrors, windows and seats are all offered by outside suppliers.

**In addition to components, manufacturers are increasingly asking suppliers to provide integrated systems**

Not only that, vehicle manufacturers are increasingly asking suppliers to provide integrated systems. One group might, for example, provide brakes, actuators and electronics in one ready-to-install package. By shifting responsibility for product development on to the suppliers, the OEMs can concentrate on issues such as brand management and vehicle design.

Mr George Simpson, chief executive of Lucas Industries, the automotive and aerospace equipment group, says: "They will retain final assembly and test responsibility for their vehicles but outsource larger and larger modules."

He predicts that the OEMs might soon outsource their aftermarket logistics.

His view is echoed by Egis, the Paris-based management consultant, which argues that carmakers may consider spinning off their engine divisions into fully independent companies.

It estimates that over a number of years, a specialist engine maker would be able to offer engines of improved design at prices between 3 per cent and 7 per cent below competitive suppliers.

That assumes, however, that such engine makers would have enough financial muscle to invest in new products and establish an international distribution network.

In diesel engines, where outsourcing is already prevalent, there is a marked shift to con*solidation. Varity Corporation,* the US engineering group which owns the Perkins diesel engine business, has agreed to merge with Lucas.

The company says it needs to have a stronger balance sheet and larger supply chain to justify its plans to launch a new engine in each of the next four years.

While motor components manufacturers have enjoyed the largest swing to outsourcing, other engineering groups are also exploiting the trend.

Siebe, the international controls and temperature appliances group, manufactures electronic power products for most of the world's largest white goods manufacturers.

Like Lucas, it too believes that it needs to be a systems integrator – taking over more of the design and development of components from the likes of Whirlpool and Electrolux.

To that end, it paid £520m earlier this year for Unitech, the power suppliers business, which should enhance the range of products it offers.

Mr Allen Yurko, Siebe chief executive, says it wants to develop "standard-industry building blocks" for the power components and circuitry of products such as refrigerators, kettles and washing machines.

"Modular systems is where the market is going. It's never easy to persuade customers to outsource, but modular systems is where the market is going – it not just about good value but making things more efficient," he says.

While engineering groups such as Siebe and Lucas are determined to become systems integrators, others such as GKN and TI Group are committed to refining existing products and taking them into more and more new markets.

What unites all these groups is size. They argue that the days of a fragmented component industry supporting thousands of niche manufacturers are over. *According to Mr* Simpson at Lucas: "Globalisation means that there will be fewer but larger first-tier suppliers in existence as we enter the next century."

That trend has been driven partly by a paternalistic streak among the OEMs. While on the one hand, they may be willing to outsource a large number of components, they still want to exercise considerable influence over the design and quality of the products they receive.

Boeing, like many other US manufacturers, has a preferred supplier status which it awards and withdraws from those outsourcers that meet its standards. Losing such status, as some companies have found to their cost, can seriously dent profits.

Some European car makers also have a strong sense of nationalism when it comes to ordering parts. Peugeot-Citroën of France, for example, warned recently that it would not renew contracts with the French components group Valeo if it fell into foreign hands. Renault and Germany's Volkswagen were said to hold similar views.

That suggests that while OEMs are happy to take the benefits of outsourcing – such as lower cost products and reduced R&D spending – they are discriminating customers which demand the best of engineering groups.

Not all companies are able to satisfy them, especially the medium-sized operators without global spread or market leading products.

There are clearly large opportunities to win valuable business as a systems supplier, but the costs of developing new technology and developing an international presence may mean that only the fittest survive.

■ **Machine tools:** by Peter Marsh

# Playing its part

**Cost-cutting, spending on R&D and patience have all contributed to recovery**

Mr Lloyd Brandenburg, in charge of a big scissors production project in Wausau, Wisconsin, is buying British, and is proud of it. He is playing a part in the recent upturn in the UK machine tool sector.

He is project engineer at the US division of Fiskars, a large Finnish-owned maker of scissors and other cutting equipment. His plant in Wisconsin is among the biggest in the US, making 25m pairs a year mainly for consumers.

A key to efficient scissors production, all the more so because of heavy price competition in the industry from low-labour cost countries in Asia, is a high level of automation.

Highly specialised grinding machines, imported to Wisconsin from Jones & Shipman, a 97-year-old UK machina tool company, have helped keep Mr Brandenburg's business in good shape. The orders have been a factor behind the improved performance recently by Jones & Shipman which hit severe financial problems in the early 1990s recession.

Jones & Shipman, with annual sales of about £23m, is one of four UK-owned companies in the top 10 producers in Britain of machine tools. These 10 companies account for about 60 per cent of total UK production, which has grown strongly from the 1990s recession and this year is expected to be 20 per cent up on last year at about £800m.

The industry's rebound has put a new spring into a sector which has suffered a long and slow decline over the past 50 years with many venerable names having vanished without trace as a result of foreign competitioo and an uncompetitive exchange rate.

Jones & Shipman, however, has managed to cling on. According to Mr John Wareing, managing director of the Leicester-based company, this is partly due to strong support from its investors during its difficult financial period and a new strategy announced in 1992 that dramatically cut costs by putting more work out to specialised subcontractors as opposed to having parts made by the company's own workers.

Another key has been continuing spending on research and development, which at some £1m a year, says Mr Wareing, is high for a company of Jones & Shipman's size.

The so-called "creap-feed machines" sold to Fiskars – of which two have been shipped to the US in the past year at up to $300,000 each – illustrate this point. Creep-feed grinding involves passing the workpiece under the grinding wheel at a slow pace, allowing greater metal removal in one pass, and thus increasing the customer's productivity. The feeders were originally used in high-precision industries such as aerospace but more recently have been used to make more bumdrum articles such as scissors – where the hardware can be used to machine extremely precisely and quickly scissor blades with the minimum of human intervention. In the case of Fiskars' use of the machines, each piece of equipment can fashion up to 600 blades at a time.

Jones & Shipman took over the rights to its brand of creep-feed technology in the 1991 from Brown & Sharpe, the venerable US machine tool company which has since pulled out of the industry. It has poured much of its engineering resources into updating the technology, particularly tha computerised controls needed to make the machinery capable of working 24 hours a day, seven days a week.

According to Mr Brandeoburg, who was introduced to the creep-feed ideas originally through buying Brown & Sharpe equipment, Fiskars looked at the possibility of buying machines from other companies making similar hardware, such as Elb of Germany. However the company decided to opt for the UK models.

The biggest maker of machine tools in the UK this year is expected to be Cincinnati Milacron, the US-owned company which has a plant in Birmingham. Production from tha factory is likely to be worth about £95m, with 80 per cent of the hardware exported to companies in a range of industries including domestic appliances, aerospace and automotive.

The second and third biggest makers of machine tools in the UK are, according to industry estimates, Western Atlas, also of the US, aod Yamazaki Mazak of Japan. Expected productioo this year from these two companies, both of which have been expanding quickly in the past two years, is put at £90m and £75m respectively.

Earlier this year, in a move that further underscored the better prospects for the industry, Heller, the privately owned German machine tool company, announced an outline plan to spend £15m in expanding its factory in Redditch in the Midlands. The plan could ultimately lead to 300 new jobs.

According to Mr Neil Mitchell, finance director of the UK sales division of Gildemeister, another German machine tool company but one which does not have a UK production base, prospects for his company's machines in Britain are highly promising – with strong demand in particular from the automotive parts industry. "Our orders last year were 20 per cent up on 1994," says Mr Mitchell, whose company sold £9m worth of machines in Britain in 1995.

The strong run for the UK machine tool industry needs, however, to be put in perspective. This year's likely production means the sector is only just about clawing back the ground it lost in the early 1990s recession, bringing output levels up to those in 1990. Output fell to less than £600m in 1992.

"The prodnction growth of the past couple of years has been strong, but it's been from a positioo of hugger all," says Mr Robin Leggett, publications manager of Marketing Strategies for Industry, a consultancy specialising in the engineering industry.

Reflecting this point, there are some in the machine tool industry already beginning to worry about the next downturn. They are wondering out loud if the sector will be strong enough to survive without a further falling from grace of large and well-koown companies.

PROFILE Cameron-Price

# Moving from cars to cosmetics

Switching from the automotive industry to the world of cosmetics may sound a little ambitious for most small engineering companies. But for Cameron-Price the eclectic mix of markets – ranging from brewing to ball-point pens – reflects how small engineers can develop an unusually broad strategy.

Traditionally the Birmingham-based company has concentrated on the plastic injection moulding of automotive parts, and the car industry still represents three-quarters of its turnover today. However, the company now sees itself less in terms of manufacturing one line of products than providing a whole engineering package to its customers.

Mr Tony Banks, managing director, tells how the strategy was underlined by a visit by an executive from Nippondenso, one of the company's largest customers alongside Lucas and Dunlop. "He told us we were not selling injection mouldings but selling solutions, because we had saved him money by selling him our products.

"Ten years ago we would have been given a drawing by a customer and we would have manufactured in that drawing. Increasingly customers are pushing down the design responsibilities, which is good because one of our main strengths is innovation. With our expertise in plastics and other materials, we can replace metal parts to make products which are technically as good, but at lower costs," he says.

It was this approach to problem-solving that led in the company's involvement with Boots in designing the packaging for a new line of cosmetics. By using its computer design technology – normally employed to develop car parts – the company created its own designs based around the cosmetics' measurements.

It was then able to produce three-dimensional pictures of prototype packaging, combining the work of design consultants with plastics engineers in a successful bid for the contract. A similar attitude has won the company work designing and producing the widgets in beer cans, as well as presentation boxes for Parker pens.

The realisation that the company's strength lay as much in its design work as its technical skills has contributed to dramatic growth in recent years. Turnover now stands at around £6m compared to £2.2m five years ago, helped by a substantial investment plan worth around £2m over that period.

The investment – in a new factory and in integrated computer-controlled machinery – has also helped to reduce labour costs and improve productivity. Five years ago, the company employed 120 people, while today the workforce stands at around 90 and the factory works at capacity throughout the week.

Last month the management completed a buy-out deal from the company's founder, with the help of £2.6m of equity from Lloyds Development Capital.

Mr Banks says: "We wanted to be a world-class supplier, and to do that yoo have to have world-class equipmeot. If you do not invest, you are dead and you end up with clapped-out old plant, doing the type of production nobody else would want to do.

"The industry learned a bitter lesson 10 years ago, when we were exporting jobs to Germany, France and Spain. Today we can manufacture identical products at a big cost saving to them, not just through the rate of exchange and social costs but because our output is so much better."

As a smaller company with large ambitions, Cameron-Price has relied on partnerships with the public sector such as universities and local authorities. It uses the services of Midland universities both for training and for solving manufacturing problems.

But the most important partnerships are those with its own customers. With Lucas, for instance, Cameroo-Price is developing a system of electronic data interchange. This will allow the company to monitor stock levels at Lucas and reduce its customer's paperwork wheo ordering supplies. For Cameron-Price, the move is a logical progression of a trend which began with open-book costing, following the lead of Japanese manufacturers.

The company has attempted to create an entire corporate culture around these customer partnerships. Machine operators are trained to be able to talk directly to customers to explain how their work is progressing. And the company has improved its recruitment to take on more graduates – particularly those with language skills.

Computer-aided design has proved essential to the new engineering service which the company aims to provide. When Ford in Dagenbam asked Cameron-Price to help develop a new brake fluid reservoir, the Birmingham company was able to turn a Ford sketch drawing ioto a three-dimensional picture ond then into a prototype with full costings within one week.

Richard Wolffe

■ **Interview:** Graham Mackenzie

# An image problem remains

**The federation has been casting around for a new sense of purpose, writes Peter Marsh**

Mackenzie: problem areas remain

The engineering industry in the UK suffers from a "fairly serious" image problem, with too many people regarding it as old-fashioned, boring and dirty. Such a sentence could easily have been written any time over the past 30 years. However, it remains true today, according to Mr Graham Mackenzie, director general of the Engineering Employers' Federation, the main trade body for the industry.

"The profile of engineering has oot been well understood," says Mr Mackenzie. "The industry has got to try to counter this by talking more about the positive side to the industry and the good and satisfying jobs that are available."

The federation, which this year is celebrating its 100th birthday, has launched a series of scholarship schemes in which member companies will make available £100,000 to boost education and training in the industry.

Mr Mackenzie says that shortages of people, of virtually all skill levels, is one of the industry's biggest problems. This is not simply down to difficulties in getting enough good people to progress through on-the-job training and take on senior jobs in the sector, but can be linked to lack of perceived attractiveness to the industry in schools and higher education. "Not enough people are studying [engineering related subjects] at A level and a large number of university science places are unfilled. What's happening is quite frightening," he says.

The EEF has got problems of its own. Talks about merging its activities with those of the Confederation of British Industry, a much bigger body and which speaks for a range of service sectors as well as manufacturing, broke down in 1994 because of disagreements about how to marry the two organisations' interests.

Since then, the federation, with about 5,000 members split into 13 regional groupings, has cast around for a new sense of purpose. Earlier this year it published a strategy paper committing the federation to improve services to members in areas such as advice on exporting or training, as well as setting out plans for a 10 per cent increase in members.

Mr Mackenzie believes prospects for UK engineering are bright, in spite of the downturn in the sector since the end of last year. "Britain is increasingly competitive in world terms. It's the place where [overseas companies] come and build car plants." However, he insists big problem areas remain – one being lack of sufficient capital spending.

One view on this is because the UK has a fairly good record in expanding output through teamworking and other management techniques, it does oot need to invest as much as other countries in new plant and buildings. Mr Mackenzie disagrees. He thinks it ludicrous to believe the UK can compete with other countries in precision industries without continually modernising its capital equipment and tooling.

PROFILE Rotork

# Genteel start for tough valve controls

## Change has come from developing new technology to meet competition from abroad

Rotork, a leading manufacturer of valve controls for the oil, water and power industries, seems slightly out of place in its home base in the prosperous suburbs of Bath.

It looks rather incongruous that equipment designed for some of the world's toughest operating environments starts life in a genteel corner of the English west country.

Yet Rotork's location is not that strange because the towns of the west country hide one of the UK's great reserves of engineering skill and experience. Many are in the defence and aerospace industries, linked to British Aerospace factories around Bristol. But others, like Rotork, have developed independently.

Until the late 1980s, the company was content with steady growth in sales and profits, without striving to exploit to the full its world-class technology for fluid controls.

Since the late 1980s, the company has transformed itself with a drive to maximise its potential, respond to growing international competition and develop new technology, much of it based on electronics. "We are in a specialised market area. Control systems are becoming more and more sophisticated, so we can provide higher value-added products year by year," says Mr Bill Whiteley, chief executive.

Turnover has soared by nearly 70 per cent since 1990, to £80m last year and profits have doubled to £15.3m, fuelled by demand from overseas, mainly from east Asia. Exports account for over 80 per cent of UK production. Rotork's world market share has riseo from 25 per ceot to 30 per cent. It employs over 830 people, including 260 in Bath, and others in plants in Luton, the US and India.

Rotork's main products are actuators which control valves in refineries, pipelines, power stations, and water and sewage systems. Twenty years ago, the valves were mostly controlled individually but the development of electronic control systems has enabled Rotork to integrate many valves into a single control system. Mr Whitely estimates that between a quarter and a third of Rotork's actuators are now sold in control systems packages. Valves on 20km of pipeline can be linked into a single network.

> More recently, Rotork has launched a range of actuators operated by hand-held remote controls

More recently, Rotork has launched a range of actuators operated by hand-held remote controls for use with individually-operated valves. Called the IQ range, these actuators allow a technician to change the settings on a valve using a television-style remote control without having to open up the equipment to reach an internal control panel.

Rotork's main competitors are specialist companies in Germany, Italy and the US, which do well in their home markets but find it difficult to match Rotork in international business. Rotork and its rivals work extensively as sub-contractors on large projects for engineering groups such as ABB, the Swiss-Swedish company.

As well as up-grading its technology, Rotork has responded to competition by cutting costs. It has abandoned a long-standing policy of double-sourcing key components in favour of developing closer ties with fewer suppliers.

At the same time, Rotork has greatly expanded its use of sub-contractors, farming out work which used to be done in-house to save costs. Its pursuit of savings has led it increasingly to rely on British suppliers, reducing its component imports from 30 per cent to 10 per cent for metal parts such as castings. But electronic components are still mostly imported for lack of suitable domestic manufacturers.

Rotork's out-sourcing efforts have encouraged the growth of sub-contractors in and around Bath, many of them working mainly for Rotork and increasingly sharing in product development. Meanwhile, Rotork has streamlined production at its main plant in Bath to cut costs and raise quality. With a vast range of 2,500 different types of actuator almost all made to order, careful control of the production process is the key to good plant management.

The company has recently invested £11m in a computerised system which integrates everything from design to sales. It enables design engineers to feed their designs into the computer and then check the progress of their products through the factory. Product development times have been cut from 18 months to six. Inventory management has also improved with the average stock turn falling from 18 weeks in the 1980s to eight.

**Stefan Wagstyl**

■ Castings: by Peter Marsh

# A close-to-home strategy

## Diversifying into new sectors and workforce flexibility have contributed to unexpected growth

Andrew Cook: hands-on chairman

A new rule is guiding the business life of Mr Andrew Cook, chairman of William Cook, Britain's biggest maker of steel castings. He has vowed never to operate a plant more than two hours away from the front door of his home just south of Sheffield. Mr Cook is very much a hands-on chairman. He says: "A business that is neglected – it could be big or small – will go into decline. If you've got an absentee shop owner the shop will go off."

He did not always have this point of view. Between 1990 and 1992 Mr Cook looked around the rest of Europe for castings plants to buy, and also considered a range of acquisitions in other areas of engineering.

He did not find anything worth buying – and anyhow the straitened economic climate of the time might have made deals difficult.

"The two years were totally wasted," says Mr Cook, who says he is now content to stick with his plans of minimal factory commercial expansion.

In spite of the slimming down of his ambitions, Mr Cook has already made his point – which has been to show there is still life in what many have taken as being a pretty moribund industry.

In the late 1980s William Cook – a publicly quoted company which had previously been owned by the Cook family and of which Andrew Cook took over as chairman in 1981 – went on a buying spree.

During this, it purchased a string of about 14 castings units. It closed many of them and consolidated the rest into three plants in the Sheffield area, one in Leeds, one in Durham and one in Derbyshire.

Mr Cook has squeezed out profits from the plants, which export a third of their production, with about a half of the overseas sales destined for the US.

Customers include a range of companies in general engineering, including the construction equipment, defence, chemicals and mining sectors. Customers include Caterpillar and J.C. Bamford Excavators, two of the world's biggest makers of earth movers, and Vickers, which makes tanks at two plants in Leeds and close to Newcastle on Tyne.

William Cook claims to account for roughly half the UK's total production of steel castings, of some 125,000 tonnes a year. The total output is now about half the figure of the early 1980s.

Taking into account all castings, the UK produces about 1.1m tonnes a year, with 85 per cent of these made from iron and a small amount made from aluminium and other non-ferrous metals.

The recent expansion of the UK car industry, helped by the increased production by Toyota, Honda and Nissan in their "transplant" factories set up over the past decade, has spurred production of castings for the vehicle sector. Other industries which are big users of iron castings in particular include domestic appliances and machine tools.

> Other industries which are big users of iron castings in particular include domestic appliances and machine tools

Castings companies which have expanded strongly in recent years and which make goods for the automotive industry include Metal Castings, based in the Midlands and which specialises in aluminium products. It has, in addition, been particularly boosted through a string of orders from Toyota.

In the case of William Cook, one reason suggested by Mr Cook for his company's good performance over the past few years is the UK's "highly flexible" workforce. By this he means people are sufficiently enthusiastic and motivated not to mind switching around between different types of jobs in manufacturing plants. Job security and the fear of unemployment, he reckons, makes people more inclined to work more vigorously than in the past.

Two other castings companies – mainly involved with iron castings or products made from iron/steel mixtures – which have announced expansion plans are Rudge Littley, based in West Bromwich in the West Midlands, and James Maude, of Mansfield.

Both are old-established, privately-owned companies which earn a large part of their incomes through supplying machine tool builders, as well as other parts of the engineering industry. Rudge Littley, with annual sales of just over £8m, is spending £1.8m on new plant and equipment, while James Maude has started a £3m investment programme to expand its £10m a year production possibly to £15m over the next few years.

Mr Roy Everett, chairman and chief executive of Rudge Littley, and who also owns a 30 per cent stake, says his business has expanded thanks partly to a policy of diversifying into supplying a range of sectors, particularly those with good growth prospects. He reckons that sectors concerned with environmental areas – such as water treatment and sewerage – are seeing steady demand for new investments. As a result making castings for makers of equipment such as pumps which supply to these sectors has been for his company a sensible growth strategy.

Mr Roy Grundy, a business strategy consultant working for James Maude, and who has put together essential elements of the company's expansion plans, says: "In our case we have doubled turnover compared to three years ago by concentrating on medium- to large-size castings for a range of different companies and keeping altogether out of the automotive industry where the price pressures are that much tougher."

PROFILE IMI

# Small bore goes for Olympic gold

## In the drive for markets abroad, it has pared down its interests to three core areas

There are few engineering companies that can claim to be competing for a medal at the Olympic games in Atlanta.

But in the arcane sporting world of small-bore target shooting, IMI, the international group based in Birmingham, is expecting to play a central role in winning at least some of the honours this summer.

Among top-class marksmen, IMI's Tenex 0.22 ammunition is seen as one of the most accurate in the world and is regularly selected in international competitions.

But whatever the reputation for world-class performance in shooting circles, IMI's cartridges are very much a vestige of the past for the engineering group.

The ammunition is in fact produced by one of the group's founding companies, Eley, which began manufacturing bullets in 1828.

Although it is based on IMI's head office site, the company is one of its smallest subsidiaries, with a turnover of around £9m a year.

For IMI, Eley harks back to its origins as Imperial Metal Industries, when Its was floated by ICI in 1978.

Today IMI is no longer either imperial or reliant on its metals business, which was also based on its head office site.

Much of the management's efforts over the last decade has been directed away from the old metal-bashing businesses serving the UK's markets towards added-value products exported across the world.

In 1980 the group's turnover was weighted heavily towards the domestic market, representing 60 per cent of group sales.

This year that figure is likely to have halved, with around 70 per cent of turnover coming from overseas markets.

In spite of such a geographical turnaround, Mr Alan Emson, finance director, says: "I do not think there has been a fundamental change in our culture over the last 10 years. We do encourage people to manage their own businesses rather than follow head office demands.

"However, we have invested heavily recently – around £50m a year for the last five years – because we are competing in the world and we have to be world leaders in that respect."

Alongside the drive to become an international participant, IMI has pared down its range of businesses steadily to concentrate on three core areas: building products, drinks dispense, which produces machines handling soft drinks and beers, and fluid power, involving pneumatic valves and fittings.

Building products has seen one of the most dramatic moves over the last 12 months, with the £130m purchase of Heimeier, the German manufacturer of radiator valves, in January.

The acquisition – which represents just the sort of higher value-added product the company aspires to – is intended to fit into IMI's existing product line of copper tubes and fittings for the plumbing and heating markets.

IMI's management is confident that Heimeier will grow as it uses its global distribution network to market the radiator valves.

However, some City analysts query the acquisition at a time when the German market has turned down and the UK building industry shows few signs of recovery.

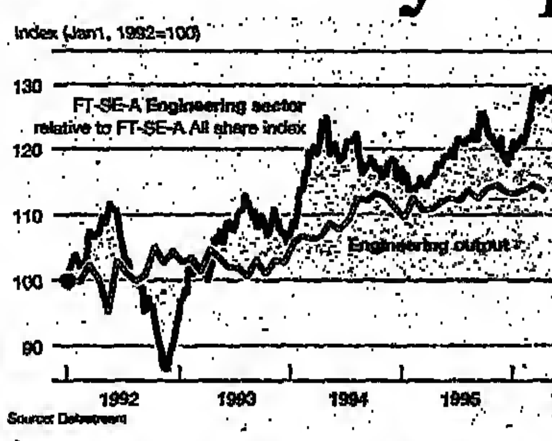
The other dramatic move came in April when IMI announced it was to sell most of its stake in its troubled titanium business. After sustaining heavy losses through the 1990s, mostly because of the collapse in military and civil engine orders, IMI transferred its titanium business to Timet of the US.

The deal, in October, created one of the world's leading titanium producers – ironically, just as the UK operations returned to profit in the last quarter of 1995.

But this year IMI raised £118m by selling most of its interest in Timet. This left a large hole in its fourth division – special engineering. As a result, some analysts feel this division, which includes Eley and Birmingham Mint, could be facing further sell-offs.

The pressing question for IMI is what direction the group should now take, as tha Timet deal leaves the group with very low gearing – even after paying for Heimeier.

Mr Emson says: "I think there is little doubt we will see further growth by acquisition in fluid power. The same is likely in building products, but you are more likely to see organic growth in drinks dispense because we are already very strong in most markets."




For some in the City, IMI has come across as a less attractive engineering group than some of its UK rivals. This has been the case particularly after the titanium losses and an ill-fated venture into the computing business, which it sold in 1994.

Mr Michael Blogg, engineering analyst at Charterhouse Tilney, says: "If one compares IMI to companies like Siebe or TI, it is not as strong because its products do not command world product leadership – with the exception of drinks dispense.

"The other thing is that the growth potential in its existing markets is perhaps less than these other companies.

"Nonetheless there are benefits in being focused on a mere three businesses for a group of IMI's size. It is a well-understood company – much more so than something like Morgan Crucible."

**Richard Wolffe**